



The St. Louis economy, including population growth and employment, are expected to change little. Although there are some definite positives in the market, such as the industrial sector, in general, the commercial real estate market is not as strong as many other markets.

Office

- The St. Louis office market exhibited some weakening during fourth quarter 2006. The vacancy rate increased slightly, and the average rental rate decreased. Net absorption also was down, along with construction activity.
- The average sale price of office space in the St. Louis area is \$105 per square foot, slightly lower than the Midwest regional average of \$111 per square foot and well below the national average of \$167 per square foot, according to RERC's transaction analysis.
- Office properties in the St. Louis area have a transaction-based capitalization rate average of 7.8 percent, higher than the regional and national averages of 7.6 percent and 7.2 percent, respectively.
- CCIM designees and candidates gave the St. Louis office sector an average performance rating of 5.5 on a scale of 1 to 10, with 10 being high.

Like many large cities in the Midwest, St. Louis' office performance is below average. Signs of marginality are present with slightly lower vacancy and rents, lower-than-average selling prices, and slightly higher capitalization rates. In general, investors see the St. Louis office market as strong, but with little potential for improved performance.

Industrial

- Fundamentals are down in the St. Louis industrial market. The average availability rate increased in fourth

quarter 2006, and net absorption was negative. However, average asking rents increased, and construction activity slowed somewhat.

- RERC's transaction analysis indicates that the average sale price for industrial space in the St. Louis area is \$53 per square foot, slightly higher than the regional average of \$49 per square foot, but significantly lower than the national average of \$83 per square foot.
- The average capitalization rate for industrial properties in the area is 7.8 percent, equal to the regional rate, but higher than the national rate of 7.4 percent.
- CCIM designees and candidates rated the performance of the St. Louis industrial market at 8.0 on a scale of 1 to 10, with 10 being high.

With the city's strategic location for distribution of goods to every region of the country, the St. Louis industrial market continues to attract investors and developers, as demonstrated by the new construction underway.

Retail

- Retail fundamentals are down slightly in the St. Louis market. Average asking rents declined, the availability rate rose, and net absorption was negative.
- Retail space in the St. Louis area is selling for an average price of \$91 per square foot, lower than the regional and

Demographics & Economy

Population:

2006 (est.): 2.8 million
2011 (proj.): 2.9 million

Unemployment Rate:

St. Louis - 4.6%
Missouri - 4.6%
National - 4.5%

Economic Performance Rating*:

St. Louis - 5.0
National - 7.0

**Rating given by CCIM designees and candidates in the study area, based on a scale of 1 to 10, with 10 high.*

national averages of \$126 per square foot and \$169 per square foot, respectively, according to RERC's transaction analysis.

- The St. Louis area retail sector has an average capitalization rate of 7.1 percent, while the national rate is 6.9 percent and the regional rate is 7.2 percent.
- CCIM designees and candidates rated the performance of the retail market at 7.7 on a scale of 1 to 10, with 10 being high.

The St. Louis retail sector appears solid in comparison to the rest of the Midwest region. Capitalization rates are close to regional and national rates, indicating an average amount of risk in St. Louis, although selling prices are lower than national averages, as is the case for Midwest properties generally. Declining rents and rising vacancy rates are troubling if these trends continue, but this could be the result of a short lull in demand or increases in new construction. Time will tell if the market will start to show positive or negative strides.

Apartment

- The average selling price of apartment properties in the St. Louis area is \$49,415 per unit, much lower than the

National Transaction Breakdown (Jan. 1, 2006 - Dec. 31, 2006)

	Office	Industrial	Retail	Apartment	Hotel	Total
Volume (in millions)						
<\$2 million	\$2,307	\$4,047	\$4,070	\$5,669	\$220	\$16,312
\$2-5 million	\$3,910	\$5,701	\$6,222	\$5,910	\$926	\$22,668
>\$5 million	\$155,131	\$32,581	\$50,896	\$87,663	\$33,689	\$359,961
All	\$161,348	\$42,328	\$61,188	\$99,242	\$34,835	\$398,942
Unit Price Averages						
<\$2 million	\$103	\$68	\$103	\$92,566	\$53,998	-
\$2-5 million	\$167	\$96	\$216	\$128,810	\$59,767	-
>\$5 million	\$209	\$104	\$250	\$126,410	\$137,649	-
All	\$167	\$83	\$169	\$107,833	\$110,713	-
Median of all	\$137	\$66	\$123	\$86,170	\$82,776	-
Capitalization Rates (All)						
Range	4.7 - 10.5	4.8 - 11	4.4 - 10.4	3.8 - 10.6	5.7 - 12.3	3.8 - 12.3
Average	7.2	7.4	6.9	6.3	8.7	7.3

regional average of \$67,913 per unit and less than half the national average of \$107,833 per unit.

- The average capitalization rate for apartment properties in the area is 6.4 percent, lower than the regional rate of 6.9 percent and only 10 basis points higher than the national average of 6.3 percent.

- The St. Louis apartment sector had the highest rating among the property types, with an average rating of 10 on a 10-point scale, with 10 being high.

Apartments are faring well in the eyes of investors, due to low sale prices and capitalization rates comparable to national averages. With a strong market for buying and selling apartment properties, it appears as if investors are taking lower returns in exchange for lower prices.

Hotel

- RERC's transaction analysis indicates the average selling price of hotels in the St. Louis area is \$34,066 per unit, drastically lower than the regional and national average prices of \$77,324 per unit and \$110,713 per unit, respectively.

- Hotel properties in the area have an average capitalization rate of 9.1 percent, equal to the regional rate, but higher than the national rate of 8.7 percent.

- CCIM designees and candidates rated the performance of the hotel market at 5.0 on a scale of 1 to 10.

In general, the St. Louis area is not a highly sought-after tourist destination. According to our data set, the area has low prices and a slightly higher-than-average capitalization rate.

Midwest Region Transaction Breakdown (Jan. 1, 2006 - Dec. 31, 2006)

	Office	Industrial	Retail	Apartment	Hotel	Total
Volume (in millions)						
<\$2 million	\$366	\$734	\$802	\$793	\$27	\$2,721
\$2-5 million	\$511	\$1,012	\$1,071	\$559	\$173	\$3,325
>\$5 million	\$20,592	\$3,963	\$8,580	\$5,780	\$3,268	\$42,183
All	\$21,449	\$5,669	\$10,417	\$7,097	\$3,463	\$48,095
Unit Price Averages						
<\$2 million	\$72	\$43	\$80	\$67,512	\$26,791	-
\$2-5 million	\$125	\$61	\$196	\$56,865	\$38,901	-
>\$5 million	\$146	\$60	\$199	\$74,944	\$106,884	-
All	\$111	\$49	\$126	\$67,913	\$77,324	-
Median of all	\$95	\$41	\$89	\$53,063	\$57,292	-
Capitalization Rates (All)						
Range	5.3 - 10.5	5.3 - 11	5 - 9.5	4.1 - 10.6	6.3 - 12.3	4.1 - 12.3
Average	7.6	7.8	7.2	6.9	9.1	7.7

St. Louis Transaction Breakdown (Jan. 1, 2006 - Dec. 31, 2006)						
	Office	Industrial	Retail	Apartment	Hotel	Total
Volume						
<\$5 million	\$43	\$132	\$100	\$66	\$16	\$357
>\$5 million	\$1,049	\$249	\$358	\$390	\$44	\$2,089
All	\$1,092	\$380	\$458	\$455	\$59	\$2,445
Unit Price Averages						
<\$5 million	\$77	\$54	\$79	\$41,605	\$25,187	-
>\$5 million	\$136	\$48	\$145	\$74,146	\$46,498	-
All	\$105	\$53	\$91	\$49,415	\$34,066	-
Median of all	\$105	\$46	\$63	\$39,150	\$25,082	-
Capitalization rates (all)						
Range	5.9 - 9.8	5.9 - 9.8	5.3 - 8.9	4.8 - 8	6.8 - 11.4	4.8 - 11.4
Average	7.8	7.8	7.1	6.4	9.1	7.6

NCREIF Real Estate Index Returns - 4Q 2006					
	Office	Industrial	Retail	Apartment	Average
Total Returns:					
1-Year Rate	12.10%	12.80%	-	6.40%	11.10%
3-Year Rate	10.70%	14.10%	-	8.40%	11.70%
5-Year Rate	7.40%	11.00%	-	9.00%	10.70%
10-Year Rate	10.50%	11.60%	-	-	11.00%
15-Year Rate	9.50%	9.50%	-	-	9.60%
Income Return					
1-Year Rate	7.20%	7.70%	-	5.80%	6.90%
3-Year Rate	7.40%	7.60%	-	6.50%	7.20%
5-Year Rate	7.50%	8.10%	-	6.80%	7.60%
10-Year Rate	8.70%	9.00%	-	-	8.50%
15-Year Rate	9.60%	9.10%	-	-	8.70%
Allocation					
	Office	Industrial	Retail	Apartment	Other
1-Year Average	39%	30%	0%	23%	8%
3-Year Average	39%	29%	0%	23%	8%
5-Year Average	37%	27%	0%	22%	14%
10-Year Average	34%	22%	0%	15%	29%
15-Year Average	31%	22%	0%	10%	37%
Sources: RERC and National Council of Real Estate Investment Fiduciaries					

Noteworthy Transactions

- The 10,000-square-foot industrial property located at 9010 Hall St. sold for a little more than \$1 million, or about \$120 per square foot, double the average price of \$54 per square foot for area industrial properties selling for less than \$5 million.
- The Pierre Laclede Center, a 577,818-square-foot office property located at 7701 and 7733 Forsyth Blvd., sold for \$75 million, or \$171 per square foot, well above the average price of \$136 per square foot for office properties in the area selling for more than \$5 million.
- The 12-unit apartment property located at 5349 Arsenal Ave. sold for approximately \$422,000, or \$35,208 per unit, less than the average of \$41,605 per unit for apartment properties in the area selling for under \$5 million.
- A 73,000-square-foot office property located at 100 South Brentwood Blvd. sold for slightly more than \$12 million, or approximately \$170 per square foot, higher than the average price for properties in the area selling for above \$5 million.