IV. Market Analysis

A. Executive Summary

The Economy

The St. Louis metropolitan area population has grown at the moderate annual rate of 4.4% over the last eight years while employment (the best measure of economic performance) has grown by an annual rate of 10.0% during the last seven years. As St. Louis, along with other Midwest locations, has been unable to attract significant in-migration, the existing population has participated in the labor market at an increasing rate, resulting in a population to employment ratio which, at 50% in 1997, was one of the highest among the country's metropolitan areas.

The growth of the metropolitan area is driven by a diversified economy. The decade's (1990 through 1997) top performers were the Amusement and Recreation, Child Care, High Tech Manufacturing, Health Care and Professional Services sectors with growth rates of 70%, 61%, 58%, 40% and 37%, respectively. The area is projected to show continued strong employment gains for the 1997 through 2005 period, with health care and tourism related sectors as leading gainers.

The City of St. Louis' share of regional employment has declined from approximately 27% to 21% during the 1986 through 1996 period. Such drop in market share is not unique to the area, as suburban growth has cut into the Core cities' share of employment nationwide. More troubling is the fact that the City of St. Louis has lost not only market share but also 30,000 actual jobs during that period. Yet, industrial sectors, which show exceptional strength in the metropolitan area as compared to the nation as a whole, are well represented in the City. They include not only the City's traditional strengths in Grain and Mill Products and Beverage Manufacturing, Water Transportation and Commercial Banks, but also a range of other manufacturing sectors and various education related services.

The Site

The strong regional economy creates market driven real estate opportunities in the metropolitan area. The City in general, and Downtown in particular, has to create environments that will allow a capture of their fair share of those opportunities. The existing natural and man-made infrastructure of the City, combined with good access, creates strong opportunities which have to be enhanced by a concerted effort of revitalization if such capture is to be attained.

Within the Downtown market, the Planning Team identified areas where the first thrust of development should be focused. They were chosen for two primary reasons, as presented below:

- Development in the area that would have the highest impact on Downtown's revitalization – Laclede's Landing, Washington Avenue and Old Post Office Square/CBD Core, and/or

- The sites that have the best opportunity to develop market driven, market rate product in the very first phase of revitalization– Laclede's Landing, Riverside North, Washington Avenue and the Mall.

Note that Laclede's Landing and Washington Avenue appear on both lists. They are areas most in need of intervention, where new activity would add to the thus far heavily subsidized real estate development, creating a critical mass and synergism between different land uses. They are also areas where, because redevelopment has already occurred and is proven, new development will not represent a "pioneering" effort and is most likely to attract interest from the building and financial communities, and, as such, is likely to result in market rate development.

The Real Estate Market

There have already been gains in various real estate product developments in the City over the last five years. The Dr. Martin Luther King Business Park has attracted new employers, infill residential product - mostly single family - has had strong response from new immigrants to the City, Washington Avenue lofts have appealed to a variety of tenants and downtown hotel opportunities have generated strong interest from local and national players. These early activities in market driven urban renewal form the base for future, extended activity. The following paragraphs summarize the Downtown real estate market opportunities for the next five years, identified by product type.

Residential Market
Residential building permit issuances in the City have increased from approximately 415 in 1992 to 1,100 in 1995 and over 900 in 1996. During the next five years, the City's challenge is to capture a growing share of the projected metropolitan area demand for housing.

Based on demographic growth projections of local and syndicated sources as well as on historical real estate leads, such as turn-over rates, this Market Team projects the annual demand for housing in the region to average approximately 13,000 units. (See Exhibit 3 for the detailed analysis incorporating statistical and judgemental methodologies.) Currently, the lack of Downtown residential absorptions are as much a function of lack of supply as lack of demand. Studies previously conducted for various City organizations point to significant pent up demand for Downtown housing.

The Market Team's analyses concur with such findings, identifying residential opportunities, rehab and new construction, along Washington Avenue, at Laclede's Landing, in the Downtown Core (defined by Locust, Third, Pine and 10th Streets) as well as exclusively new construction at Riverside North and along the Mall. The opportunities include the annual absorption potential of approximately 800 rental and over 300 ownership units in a great variety of price ranges targeting a wide range of buyer profiles.

Industrial Market
The metropolitan area's excellent regional location and already healthy economic climate present significant industrial real estate opportunities. The industrial space market has been strong in the region with average vacancy below 6.0%. The City of St. Louis is the region's strongest industrial sub-market, having absorbed 1.1

million square feet of space in 1997, and representing 36% of the metro area's stock, which has a very low 3.5% vacancy rate.

Assuming that new product is introduced, Downtown has an opportunity to absorb one third of the City's projected 1.8 million square feet (600,000 square feet) of demand for new industrial space. Areas especially attractive for industrial development include the already existing concentrations of such space along Dr. Martin Luther King Drive and along the interstate road system, especially south of the Route 40 corridor, in the area known as Mill Creek Valley.

Office Market

The regional office market is healthy, having recovered from the overbuilding of the 1980s. Occupancies of Class A and B space are 90%, and annual net absorptions averaged 740,000 square feet over the last six years. Approximately 45% of net absorptions occurred in spec buildings while the remaining majority was in build-to-suit structures.

Downtown St. Louis represents approximately 45% of the region's Class A and B stock, in some of its best and some of its worst structures. The high proportion of old Class B, C and D buildings brings Downtown's overall occupancy down to 83%.

However, in Class A structures, high occupancies and increasing lease rates, which will soon reach replacement value, provide opportunities for the construction of new stock. The Market Team projects that about 500,000 square feet of new construction Class A space started now and completed in two to three years, with pre-leasing commenced at the start of construction, will absorb within a one year period following completion. Demand also exists for another 500,000 square feet of Downtown Class B space in the next five years.

Retail Market

The metropolitan area has a healthy retail market, with only 7% vacancy. The City of St. Louis retail stock registers 9% vacancy, while Downtown has a very high 43% vacancy. The role of Downtown retail goes beyond activity and tax revenue generation. Retail also serves the dual role as the most effective means of street improvement in any redevelopment effort, and the best means of creating connectedness between major catalytic venues.

Downtown retail vacancies are concentrated in St. Louis Centre, the City's regional mall and along the various streets within the Central Core. To improve Downtown retail occupancies, functional issues need to be addressed at those locations. St. Louis Centre is slated for redevelopment, a concept under study is to cut back the retail area in size (the two upper floors to be leased to back office users) and oriented more to the street with a concentration on food services and entertainment related tenants. Such reconfiguration will increase the mall's appeal to visitors at the nearby convention center and the planned hotel to be built a block away.

The City Core's street retail, once reconfigured to meet the changed needs of merchants and leased to the right mix of tenants, should be managed by a single entity. With focus on food and entertainment as well as destinational tenants (jewelry, designer clothing, etc.), it will appeal to a mix of visitors, Downtown employees and residents from the entire region. The Market Team projects that once Downtown redevelopment is underway with street improvements, etc., approximately 25,000 square feet of such reconfigured space can be leased in Year 1, and 30,000 square feet in Years 3 and 5. The same areas will also be the location of entertainment and cultural oriented retail facilities, culminating in the introduction of an 80,000 square foot multi-screen cinema complex.

To meet the needs of new Downtown residents, approximately 15,000 square feet of new neighborhood serving retail facilities, in new and rehab structures, should be introduced in Year 1, followed by 35,000 in Years 3 and 5, in areas of new residential development, such as Laclede's Landing and the Washington Avenue corridor.

Beyond the above opportunities, there also exists potential for 'big-box' retail tenants, such as Wal-Mart, Target, and Office Depot. These stores, located in such areas as Mill Creek Valley, would serve the local population, as well as the region as a whole. The potential annual absorption rate for such 'big-box' retail space is 250,000 square feet in Year 3 and 300,000 square feet in Year 5.

Hotel Market
Much of the Downtown revitalization's success will depend upon the success of the convention center, America's Center. New hotel development is the cornerstone of such success. Currently three major hotel properties are slated for development, which would create the critical mass of rooms that are necessary for attracting some of the most lucrative conventions. The planned convention hotel at Washington Avenue and 10th Street, the river oriented rehab by Drury Inns and the recently announced Westin property at Cupples Station will satisfy the Downtown need for new hotel development. Additional development at alternative, even if inferior, locations, such as at Laclede's Landing, may "cannibalize" demand from these planned developments and endanger their viability.

The above market potential in each product category translates into product opportunities. Product criteria and product mix create a product program which is a menu of synergistic product criteria.

Preliminary Product Program Recommendations

The market driven product program, which responds to the opportunities described above with a recommended array of new and revitalized developments, includes the following scale of real estate products to be developed in new and reused structures over the first five years of the revitalization effort:

Table IV-1
Product Program Summary

	Land Use			
Location	**Residential (in dwelling units)**		**Non-Residential (in square feet of space)**	
Laclede's Landing	244		177,000	
Riverside North	820		-	
Old Post Office Square	390		575,000	
Washington Avenue	1,300		434,500	
Mall	72		500,000	
TOTALS	**2,826**		**1,686,500**	

Additionally, the Mill Creek Valley area is well-suited to respond to earlier described opportunities for industrial and 'big-box' retail space. To this end, the Market Team recommends development of approximately 1,000,000 square feet of industrial space in the form of a Downtown technology park and the addition of 300,000 square feet of 'big-box' retail space.

Providing new and/or replacement parking necessary for supporting existing and new real estate products is part of the recommended program. Further detail is presented in a two page spreadsheet included as Exhibit 1 at the end of the market report text. Organized by location as in the table above, land use category (residential and non-residential) and product type (new versus reuse, ownership versus rental, attached versus detached, etc.), the exhibit summarizes the major product characteristics (density, unit size, unit price/rent) and projects the absorption potential in Years 1 through 5 of the Downtown revitalization effort.

Preliminary Planning Concepts

Based on three different transportation/circulation designs, the Planning Team developed three preliminary planning concepts for Downtown's revitalization. They each have market appeal but their appeal is different from one another. They are the following:

- Concept A, which incorporates a limited access highway connection between Interstates 70 and 64, creates excellent access to Downtown industrial development and reduces traffic along Downtown's riverfront, while negatively impacting the residential neighborhoods to the north of the Core and limiting Downtown's interconnectedness with the rest of the City and its suburbs.

- In Concepts B and C, the access to Downtown is via surface road grids, entering the Core from a westerly direction in Concept B and from north and south in Concept C. An "emerald necklace" of open space surrounding Downtown, which is the most distinguishing characteristic of Concept B, will appeal to potential Downtown residents and employees alike while creating connectedness between the various catalytic land uses in the area. The series of green spaces in an east-west direction create similar effects in Concept C. The various land uses are separated along "hard" lines in the latter and with soft boundaries in the former of the two concepts, one creating well defined districts, the other blending the uses for more synergism. From the market point of view, there are arguments for both planning concepts, as they are detailed further in the text of this report.

All three concepts build heavily on the existing stock of public and private buildings and venues as well as on the well developed infrastructure. Together they create the backdrop for the new development, which will make market driven revitalization of Downtown feasible.

Case Study Analyses

As a first step toward implementation, the Market Team studied several cities where Downtown revitalization has been undertaken. They included: Philadelphia, Pennsylvania; Baltimore, Maryland; Dallas and San Antonio, Texas; Cleveland, Ohio and Indianapolis, Indiana.

The important lessons learned included the need for strong leadership, historically connected theme(s) that became the basis for the "brand", large scale catalyst projects and connectedness of the physical plan or a system of integration between land uses and between catalyst projects. They also used a variety of funding sources, including effective reliance on business districts.