D. Real Estate Market Analysis

Market Evaluation of the Study Area

The Market Team's analysis of the study area extended to *issues of general site location, the physical characteristics of the site, access, visibility and surrounding land uses*. These issues were analyzed as they related to the opportunities to develop the various product types considered in the Planning Team's "First Directions" for planning, which included: housing, industrial, office and retail/ entertainment development, as well as hotel uses.

The team's "First Directions" document also identified specific areas of focus for revitalization. They included but were not limited to Laclede's Landing, Riverside North, Old Post Office Square/CBD Core, Washington Avenue and the Mall. These areas were chosen for two reasons because it is where new development will have the highest impact on downtown's revitalization, and where there is the best opportunity to develop market driven, market rate product.

Each of these areas was tested against the above issues to determine their suitability for the development of the various product types. The conclusions of the analysis indicated, that given a concerted effort of revitalization, downtown provides a very good locational opportunity for the development of new and rehab residential, industrial and retail development, and excellent locational opportunity for new office and hotel projects. The detailed market assessment of the study areas is enclosed in Exhibit 2.

Housing Market Analysis

Over a recent five-year period, the region generated an average of nearly 12,000 housing permits, as illustrated in Table IV-9. Compared to other regions, the area's housing market shows exceptionally little evidence of responding to the national economic downturn during the period 1992 to 1995, or to the subsequent recovery.

Table IV-9
Housing Permits Issued St. Louis MSA 1992 through 1996

Year	Single Family	Multi-Family	Total
Five-Year Avg	10,558	1,322	11,880
1996	10,527	2,134	12,661
1995	10,035	1,485	11,520
1994	11,767	1,367	13,134
1993	10,639	927	11,566
1992	9,823	697	10,520

Source: U.S. Housing Markets

During the same five years, the residential building permit activity increased significantly in the City, including single and multi-family development in new structures and renovated buildings. Table IV-10 presents the breakdown of the activity.

Table IV-10
Housing Permits Issued City of St. Louis 1992 through 1996

	Single Family			Multi-Family		
Year	**New**	**Renov.**	**Total**	**New**	**Renov.**	**Total**
Five-Year Avg	73	102	175	142	329	472
1996	119	85	204	281	420	701
1995	69	76	145	305	666	971
1994	44	90	134	95	239	334
1993	42	113	155	31	144	175
1992	92	146	238	0	177	177

Source: Homebuilder's Association, St. Louis Development Corporation

With projections of continued growth of the national economy into the next decade, the economy of the St. Louis metro area is projected to continue growing as well, creating continued health in the housing market. Our analysis of the residential demand indicates that since the existing population base has already reached its full employment potential, the area, like other Midwest cities of various sizes, will start attracting in-migration, generating an average annual issuance of 13,000 building permits during the next five years. Note our analysis of residential demand potential in Exhibit 3.

Overall, housing demand will be generated by metro area growth. Our conclusions of capture potential are based on the experience in other recovering and recovered urban areas, indicating that a newly energized downtown does not need to create its own demand for housing, it only needs to capture its fair share of the region's healthy housing market potential. As such, the current low level of *effective demand* for housing in downtown is by no means the sign of low *potential demand* for a wide variety of housing options. With very little refurbished and no new product offered, those who may have been eager to live in this part of the City had little or no choice of supply to buy, and what was there, was targeted to special, often low income qualified audiences. It has been an old truth in real estate that appropriate supply creates demand.

Certainly, with no supply, the interest for any product is difficult to measure. However, the especially strong activity in calendar years 1995 and 1996 was achieved by the significant increase in multi-family renovations. Our demand and capture analysis indicated that with the right products offered, *downtown*, by becoming a "player" in the housing market*, has the opportunity to expand the City's overall capture of the metro area's demand potential and absorb an annual average of approximately 1,100 units, 800 rental and 300 for sale residences*. As such, the right product downtown will generate significant effective demand.

The Sedway Group, a nationally respected market analysis firm, in its evaluation of the residential market, states that the City of St. Louis has the opportunity in the next three years to capture a higher share of the regional market in market-rate housing than the historical norm. The greatest opportunities are projected in the "urban dweller" market.

The recently completed, independently conducted analysis by another nationally respected firm, Zimmerman/Volk Associates, Inc. came to very positive conclusions concerning downtown's residential absorption potential. Like the Market Team, they conclude that the City of St. Louis, in general, and downtown, in particular, have a strong opportunity to capture a higher share of the metro area housing market growth than current local projections may indicate. The various market audiences that are responding nationwide to downtown lifestyles are present in significant numbers in the St. Louis metro area, as it had been established by the syndicated market research firm Claritas in its PRIZM Cluster analysis, and presented with great clarity in the Zimmerman/Volk study.

Our case studies of successful downtown revitalization projects in various parts of the nation indicate how the *potential demand* turns into *effective demand* with the “right housing product” offered in “right locations”. The products that emerged as successful developments in the areas covered by the case studies of Philadelphia, Baltimore and Dallas are loft redevelopments and new and renovated single family homes, especially in town home communities. Successful products included rental and ownership opportunities. Early product introductions have been most successful when offered in uniquely attractive locations and/or in areas where critical mass of activity already exists. Critical mass is a collection of varied residential product lines located in a concentrated area, thus producing a neighborhood and spurring greater demand than if projects were scattered throughout the various downtown locations.

The building success of local loft offerings along Washington Avenue indicates that the St. Louis market is indeed similar to the others that have registered significant successes in downtown residential development. Based on the above studies, our demand and capture analysis and the recent downtown experience, we recommend proceeding with residential development downtown. And since “jump-starting” residential market downtown requires a critical mass of activity, we also recommend concentrating the majority of such development in two specific locations: along Washington Avenue and at Laclede’s Landing/Riverside North.

Individual and unique buildings in unique locations, such as the renovated Marquette building or the construction of a high end/high rise condominium building along the Mall respond to additional buyer segments. Based on existing residential studies and the realities of residential development, as described by developers active in the area, residential opportunities are recommended for the different downtown areas:

Washington Avenue

Buoyed by the success of the current loft rental housing program which has attained very high occupancies, even though at very low, subsidized rates (which were stipulated by the structure of the deals), developers are processing plans on a number of new loft rehabilitation projects along this linear neighborhood which has the best opportunity to represent the truly 24 hour city/7 days a week urban concept in St. Louis.

It is this Market Team’s opinion that market rate product, both rental and ownership, loft rehab and new construction of architecturally compatible product, will be successful on Washington Avenue when offered. This product would build on the success of existing product. Demand is generated by young professionals working in downtown, service providers looking for live/work space, and even suburbanite empty nesters who, having raised their family near to the neighborhood school in a home with a big yard and dog run, are ready to move closer to the cultural and recreational benefits the city offers.

Rental units in loft properties and new construction on vacant parcels in this area will generate market rate rents in the range of $0.66 to $0.85 per square foot. The level of rental rates for lofts are largely the function of the unique structural character of rehab properties (i.e. floorplan configurations respond to rather than dictate the structure, and, as such, are typically significantly larger than floorplans in newly constructed structures) and the cap on total (and consequently per square foot) rents for the downtown market. Rehab projects, regardless of size, are difficult to lease at rents above $1,100 per month, and the configuration of many old buildings make loft conversion to sizes below 1,600 square feet nearly impossible. This is not to say that there is not a market for smaller product; rather existing building configurations often don't allow for small loft conversion.

For sale loft conversions are presented with similar challenges to those of rental units. Prices for converted for-sale loft units will be approximately $60 per square foot. Per square foot prices for new condominiums will be approximately $90.

Laclede's Landing and Neighboring Riverside North

These areas present the opportunity to build on the success of Laclede's Landing historical district. Attracting a significant patronage of local, regional and out-of-region visitors, the district provides entertainment and entertainment oriented retail facilities as well as loft space, all in historical structures. Surface parking lots and vacant land also create opportunities for new construction within the district. Especially attractive for residential construction is the adjacent Riverside North property, which, by its size and unique location, offers the opportunity to create a riverfront residential village.

The size of the joined parcels allows a variety of products with various densities to be offered in a neighborhood of real interest, attracting several residential market segments. From loft apartments to row townhomes, rental and ownership opportunities are projected to appeal to singles and couples of all ages and even compact families. These buyers would be attracted by the riverfront location, variety of activities, interstate system and MetroLink that provide access to places of employment and regional services, as well as the proximity to the extensive open space at the Gateway Arch.

New townhome product at that location will be most successful in the 1,200 to 2,000 square foot size range, priced in the $125,000 to $175,000 range. New condominiums to succeed should be offered in the 900 to 1,500 square foot range for prices that range from $95,000 to $135,000. Loft rehab as a function of the existing buildings' structural characteristics could rent in a very broad range, which is assumed to average $0.56 per square foot, while new rental apartments can be rented in the +/-$1.00 range. Our analysis indicates opportunity for loft rehab at Laclede's Landing, though it was not considered in previous studies. Many existing warehouse buildings lie within the area that would serve well for residential conversion. Prices for all Laclede's Landing product have been kept low so as to insure healthy initial residential absorptions.

Market Rate Rental Housing in Redeveloped Office Structures in the Core

The Marquette building presents itself as the ideal first residential rehabilitation of office space in the eastern portion of the Downtown office core. Its architectural significance and location makes this building a unique opportunity for the development of a mid-to-high end apartment complex. Rents are projected to range from $.95 to $1.15 per square foot. Units are now being advertised in the rehabilitated Edison Brothers building near Union Station. Once these structures are completely rented, the market will be ready for the absorption of units in additional rehabilitated and new structures.

Upscale Highrise Condominiums Along the Mall

High profile employment downtown and the growing empty nester market in suburbia comprise the target market for this product. Located in buildings of their own or in combination with highrise Class A office developments, this product should be offered +/-70 unit increments, with high level finishes and services. Downtowns in successfully revitalized cities, such as San Diego, Portland, Baltimore, and Dallas, have been locations for similar product that met with a high level of market acceptance. These are unique products for a discriminating audience that cares more about the appropriateness of the product than the prices. As such, for the “right” product, pricing of $250 to $300 per square foot will be appropriate. Such pricing has been well accepted in downtown markets where the metropolitan area’s levels of median household income and wealth are below that of St. Louis.

Capturing a share of the regional market, the proposed development areas are projected to have potential rental absorption rates presented in Table 10. Previous studies identified absorption potentials for initial product offerings. Our analysis assumes, as the table below presents, that after the initial wave of development, residential projects of similar character will be offered simultaneously thus boosting the overall absorption potential for St. Louis’ downtown, which is reflected in the product program. Also, as residents move to the city, neighborhoods form, which make the downtown increasingly visible to prospective residents. Table IV-11 presents the projected rental absorption schedule, by location.

Table IV-11
Projected Downtown Housing Absorption Rental Units Years 1 through 5 of Redevelopment

	Annual Potential (# of Units)		
	Year 1	**Year 3**	**Year 5**
Washington Avenue			
Loft Rehab	60	150	200
New Apartments		120	150
Laclede’s Landing/Riverside North			
Loft Rehab		24	48
New Apartments	150	150	275
Rental Rehab of Office Stock in the Core			
Mid to High End Apartments		130	130
with doorman and concierge			
(The Marquette Building)			
TOTAL FOR SALE	**210**	**574**	**803**

While only rental properties have been recently offered in downtown, our analysis indicates opportunities for offering the above discussed for sale product, absorbing as presented in Table IV-12.

Table IV-12
Projected Downtown Housing Absorption for Sale Units Years 1 through 5 of Redevelopment

	Annual Potential (# of Units)		
	Year 1	**Year 3**	**Year 5**
Washington Avenue			
Loft Rehab	24	60	100
New Condominiums		48	60
Laclede's Landing/Riverside North			
New Condominiums		24	48
New Townhouses		36	60
Along the Mall			
Mid to High End, High Rise		36	48
Condominiums			
TOTAL FOR SALE	**24**	**204**	**316**

The above absorption projections can be met by capturing below 2% of the regional housing market in Year 1, approximately 5% in Year 3 and 8% in Year 5. We project rents and prices in a relatively wide band for product with a wide variety of sizes and quality of finishes at all locations. The more variety offered the higher the absorption potential as the products respond to the needs of many market segments. Those familiar with the success of housing markets in revitalized downtowns with much less to offer than the downtown of St. Louis, will find the above capture potentials conservative.

The consulting team also concluded from its market analyses that, as the downtown housing market matures, additional residential market opportunities will emerge for a combination of loft rehab and new product offerings around the Old Post Office Square and at Cupples Station. Similarly, the team is confident that once the Marquette building is leased up and the first building of highrise condominiums sold out, there will be additional market driven development opportunities for high quality products, rental and ownership, in amenity locations, such as on sites with river and/or arch views. The recommended initial product offerings are intended to create the 24/7 city environment, concentrating management support, financial resources, and diverse buyers in the targeted areas of the City.

For more detailed information concerning area housing trends, markets and buyer profiles, please refer to Appendix C, pages 20 through 26.

Industrial Market Analysis
A significant proportion of new jobs created in the City of St. Louis and even in certain areas of downtown will occupy conventional industrial space. This section of the market analysis focuses on such employment generated demand for new industrial space. New job creation in the industrial sector is an important part of downtown's economic viability, as is downtown's ability to attract firm relocations from within the metro area.

The region's industrial space market has been strong over the last six years. Total inventory of industrial space is approximately 200 million square feet. Overall vacancy is less than 6%, significantly lower than the national average vacancy of industrial space which registers above 8% and one of the lowest in the generally healthy Midwest region where only Cincinnati and Detroit register at lower levels. Gross absorptions averaged just under 5 million square feet per year over the last six years, net absorptions amounted to 4%. In 1997, 2.5 million square feet of new space was added to the stock.

Average asking gross lease rates is $4.83 per square foot and sales prices $25.83, according to a recent presentation by CB Commercial/Richard Ellis. The primary space users are warehousing/distribution (70%) and manufacturing (25%) companies, also according to CB Commercial. Currently, R&D space which is the typical product type housing high tech firms is not a significant element of the stock in the region, in general or in the City, in particular.

The City of St. Louis is the region's strongest industrial submarket having absorbed 1.1 million square feet of space in 1997, with net absorptions averaging nearly one million square feet per year over the last six years, and representing approximately 36% of the metro area's stock. According to local sources, vacancies are 3.5%. Table IV-13 presents the space and occupancy trends in the region, in general, and in the City.

Table IV-13
Industrial Space and Vacancy in Millions of Square Feet in the Region and City of St. Louis

	Regional *		City of St. Louis	
Year	**Space**	**Vacancy**	**Space ****	**Vacancy**
1997	200.0	6.0%	86.0	7.0%
1996	186.0	6.4%	86.0	7.3%
1995	186.0	5.1%	86.0	5.6%
1994	176.5	6.0%	86.0	5.6%
1993	171.8	7.4%	86.0	5.4%

* *St. Louis City and County, St. Charles County*
** *Includes a large number of obsolete properties that affect the vacancy rate*

For 1998, CB Commercial projects new construction of three million square feet of industrial space and absorption of six million in the region. Critical for successful development is proximity to large corporations, affordable land and being part of a large tract of industrial development. The Market Team concurs, and has validated the Planning Team's "First Directions" proposal for locating a downtown technology park in the vicinity of the major headquarters locations, in the Mill Creek Valley area, along Highway 40, on a significant size parcel currently undeveloped or used for parking.

Our industrial market demand potential analysis, based on projected employment growth, identified for the next five years an annual average market opportunity of 5.3 million square feet of new industrial space in the region. In a recently completed analysis of the area's industrial market, the Sedway Group projects annual demand for 5.0 million square feet of new industrial space per year for the next several years.

With the projected growth of the economy, and the strong effort made by the City to provide space, the City could capture its fair share of 35% of this opportunity and absorb 1.9 million square feet of space. The Sedway Group's analysis found the City to be able to attract industrial users, making its industrial parks successful. As such, the analysis identified several locations for the expansion of the City's stock of industrial space and project annual absorptions in the two million square foot range.

Given that new product is introduced, downtown has a good opportunity to capture its share of the City's opportunity. Our evaluation of the potential new industrial locations identified elsewhere in the City by the Sedway Group, and those of our own team, show that a new downtown technology park could capture approximately one-third of the City's demand or approximately 600,000 square feet of industrial space. The near term absorption will be driven by pent up demand in the marketplace. The Market Team assumes that the high tech type demand will dominate the industrial markets in the new decade, and the appeal of the planned project will enforce its role as the prime site for such companies' location. With asking lease rates of $5.50 to $6.00, such product will appeal to firms that are servicing the nearby major corporate users.

The above downtown industrial absorptions represent approximately one third of the Sedway Group's projected Citywide demand for the next few years. Additional development opportunities captured in a Sedway identified potential location just north of downtown, along the I-70 corridor, would further reinforce the City's program of attracting new industrial businesses.

The proposed downtown technology park to be located in Mill Creek Valley would offer excellent access and high visibility to its users. Targeted to the much sought after high tech firms, the City will need to focus on its traditional strengths and seek out companies that benefit from their future proximity to Fortune 500 companies located in the area. Much of the demand for space in this area will come from companies that will want to service the significant size headquarters offices nearby. When marketed along with the planned "Technopolis" development, which will have university research park/medical school orientation, the synergy created by marketing two such facilities will appeal to the users whose employees typically like to locate near other firms with high tech work force.

For our analysis of the industrial demand potential, see Exhibit 3. For additional detailed information concerning industrial space and vacancy trends, please refer to Appendix C, pages 17 through 19.

Office Market Analysis

The St. Louis metro area's Class A and B office markets are on the way to recovery from the early 1990s overbuilt conditions. Table IV-14 summarized the office market trends, in both the region and downtown, over the last six years.

Table IV-14
Office Market Trends St. Louis Region and Downtown 1992 through 1997

	1992	1993	1994	1995	1996	1997
Downtown						
Supply - million sq. ft.	19.2	19.2	19.0	19.0	19.6	19.5
Vacancy	18.6%	18.3%	17.1%	18.2%	17.7%	17.6%
Absorption - sq. ft	844,241	85,762	78,147	-137,790	144,110	8,000
Laclede's Landing						
Supply - million sq. ft	0.6	0.6	0.6	0.6	0.6	0.6
Vacancy	29.9%	23.3%	22.6%	18.7%	22.7%	17.1%
Absorption - sq. ft	-409	40,988	4,341	24,003	-24,473	33,600
St. Louis Region*						
Supply - million sq. ft	41.0	41.1	41.8	41.9	42.4	43.2
Vacancy	15.4%	14.0%	6.4%	4.4%	11.7%	10.2%
Absorption - sq. ft	1,393,040	680,742	838,467	343,354	318,570	860,000

**Includes Downtown*

Source: Alternate sources report higher as well as lower vacancy rates. CB Commercial was chosen for its universal acceptance as an authority on commercial real estate data.

The regional office market is healthy, having recovered from the local (and national) overbuilding of the late 1980s. Comprised of approximately 43 million square feet of space, the region has 90% office occupancy in Class A and B buildings, not unlike the current average office occupancy rate of the nation as a whole.

In the St. Louis region, net absorptions averaged 740,000 square feet annually over the last six years. With 860,000 square feet of new space completed in 1997, new product barely keeps up with absorptions. With the large number of leases signed at low rates due to the overbuilt market during the 1992 to 1998 time period, and many of these leases expiring, lease rates of $17 to $21 per square foot are expected to increase to $23 to $25.

Downtown St. Louis office market represents approximately 45% of the region's Class A and B stock. The average occupancy of Class A and B space is lower in downtown than in the region, as a whole. However, downtown vacancies, overall, are heavily influenced by the large supply of unoccupied, older, typically Class B-, Class C or Class D stock which brings overall downtown vacancy rate to 17%, according to CB Commercial, a nationally recognized and accepted source for office data.

Approximately 50% of the space is in Class A structures, where vacancies average 7%, with the best buildings recording 4% vacancies. Buildings offering Class B space, however average 21% and those offering Class C space average 42% vacancy. Average asking rent was $18 in Class A structures, and $13 in Class B, per CB Commercial.

Other sources estimate average Class A rents at $20 per square foot, with lease rates expected to climb to the upper ranges of the metro area rates. With no significant new projects under way or planned, occupancies are projected to increase further, putting pressure on lease rates just at the time when 10-year leases negotiated in the overbuilt marketplace expire. At such lease rate structure, new construction is becoming financially feasible. The City has already seen a rush of transactions involving a variety of structures, including the landmark Metropolitan Square.

New absorptions in downtown reached nearly 850,000 square feet in 1992, when the then new Metropolitan Square building was leasing up, but are down to a projected 150,000 in 1998, with no new offering currently planned for downtown. Due to the lack of high quality space, absorptions are not possible in new downtown buildings, creating the threat of loosing occupants to other City or regional locations, unless downtown proves to be so attractive to future tenants that they start leasing space in thus far not popular rehab properties. The need to retain quality tenants necessitates the introduction of new Class A product in downtown.

New Class A product will attract relocations from outside the region and local company formations as well as move-overs from aging stock downtown. Those concerned about thus "cannibalizing" the existing inventory, should consider that such users are likely to move into newer and better product anyway and, if they do not find such product in downtown, they may move to the suburbs where it is easier and faster to build new stock. In a way, encouraging the building of new Class A space in downtown is a defensive as well as offensive business development strategy.

The Market Team's *demand analysis* indicates that from the combination of new office-occupying job creation and from turnover of existing space, the region has an opportunity for the absorption of an annual average of 2.4 million square feet of Class A and B office space. In 1997, downtown's Class A capture rate was 14% and its Class B capture rate was 30%. The construction of additional high quality Class A space and renovation of existing Class B offices, coupled with downtown's other efforts towards revitalization, will create the facilities and environment necessary to bolster these already healthy capture rates, thus making an overall office capture rate of 10% achievable.

Reinforcing its identity, a downtown capture of approximately 10% of such potential demand, will amount to an annual absorption potential of 240,000 square feet. Such absorption will reverse recent trends, which indicate a downtown capture of slightly over 7%.

The following two factors make a future 10% capture rate possible.

- The City's concerted effort to attract new office users; and
- The construction of new supply which will upgrade the current stock of downtown office space, thus increasing the overall competitiveness of downtown office space and increasing its regional capture.

There is strong indication that 10% rate is achievable. Some of this demand can be satisfied by high quality Class A and B rehab space. However, if a major single Class A user such as Southwestern Bell left the downtown, it would suddenly create an unwelcome addition to the amount of empty offices, and make financing new construction hard. Those looking for new space will not be satisfied by these newly emptied spaces. At least half of the potential tenants, who are willing and able to pay Class A lease rates, will prefer *new* Class A space. They include the growing financial services sector, other professional services (such as law firms) and regional headquarters of major corporations.

Based on the above, this Market Team concluded that there is currently market opportunity for the introduction of a new Class A office building downtown, about one half of the size of Metropolitan Square or half a million square feet. With lease rates reaching +/-$25 per square foot, in year end 1998 dollars (per CB Commercial), downtown will be able to absorb one such building in every four to five years, assuming no major changes in the structure of real estate markets, but assuming cyclical changes. Given the lead time for such product, a new project currently conceived will not be completed until Year 3 of this phasing timeframe, or three years late. If downtown succeeds at retaining its major tenants, such as Southwestern Bell, then by the time of probable introduction of a new Class A office structure, the office market will be exceptionally supply constrained. With pent up demand, lease rates of Class A space will continue to rise, reaching replacement value and making the construction feasible. Under such market conditions, a new building will likely be fully pre-leased by the time of its completion. New product should be located along the Mall area or in the central core just north of the mall. For details on recommended office product, see the product program presented in Exhibit 1.

Opportunities exist for downtown to capture potential of 120,000 to 140,000 square feet of Class A and B space in rehabilitated, older structures. This is approximately one-half of the area's demand potential for office space. The space would lease at an average rate of approximately $15 per square foot. Wired and connected, these structures could be located in the office core, preferably around or near the Old Post Office Square. The location of the product needs to be in the proximity of other Class A structures or in a unique location along the mall. The product could also be constructed on currently vacant lots used for surface parking or on top of/ replacing parking structures.

As discussed above, concerning vacancies, Class C and D office space represent a significant burden on the downtown office inventory. Decaying facades and unstable facilities make it difficult for the downtown to compete with the suburbs for this class of office space. It is the team's recommendation that a detailed inventory of Class C and D office space be conducted so as to identify buildings of historical significance for reuse.

For our analysis of office demand potential, please turn to Exhibit 4, for more detailed information on office supply, market trends and projections, please see Appendix C, pages 17 through 19.

Retail/Entertainment Market Analysis
This last segment of the market analysis summarizes the regional and local retail market trends and the retail market potential in the downtown planning area. Regional, neighborhood serving and entertainment oriented retail opportunities were explored.

The role of downtown retail development is more than creating shopping opportunities. The Planning Team's market findings indicate that the difference between successful and failing downtown revitalization often lies in the connectedness or lack of connectedness of its activity centers. Besides streetscape improvements and creating visual interest with awnings and banners, the best and truly market driven way of animating the connectors from one activity center to the other is by creating a retail/entertainment corridor.

The Planning Team's "First Directions" already place high priority on animating the major connectors of downtown by improving the downtown retail/entertainment offerings along Olive, 6th, 8th and 10th Streets. The primary goal is to create a retail area anchored by a reconfigured and improved St. Louis Centre.

The support of new development along the aforementioned streets lies in:

- Existing strength of the regional marketplace for dry goods;
- Existing and growing visitor volume bolstered by the three new hotels currently planned for downtown which will generate need for restaurant, entertainment, cultural and specialty shopping venues; and
- Future residential development created local demand for retail, services and entertainment/cultural activities.

The region has a healthy retail market, with 7% vacancy, according the recently completed analysis presented by the Sedway Group and confirmed by CB Commercial in the company's recent presentation of trends to the City. While vacancy in the City of St. Louis is approximately 9%, downtown retail vacancy is a very high 43%, according to a January 1998 report by the Downtown Saint Louis Partnership. Rental rates range from $10 to $20 per square foot and are significantly below that in some of the depressed downtown retail areas.

Much of the downtown vacancy is in St. Louis Centre, the city's 900,000 square foot super regional mall, where half of the in-line space is vacant, and Dillard's, one of the two anchors, uses less than half of its available space. The owners of the property have a vested interest in the success of the project and are working on redesigning some of the center's functions. Like the owners, the Market Team sees the need for the center to become more street friendly. In order to achieve this goal, the food court, the most successful element of the mall, is planned to be moved to the ground level.

The Planning Team will work with the mall's ownership to achieve desirable solutions for the center as it relates to adjoining retail facilities planned for the targeted areas of 6th, 8th and 10th Streets as well as the Olive Street corridor. Retail concentration in the area will gain additional support from the new convention hotel (unrelated to retail in downtown but important to the center's ownership, is leasing some of the upper level retail space to back office users. Such action will reduce the reported retail vacancy downtown).

In contrast to the failing St. Louis Centre, the 158,000 square foot retail component at the rehabilitated St. Louis Union Station is doing well, attracting regional, local and tourist audiences with entertainment oriented retail, restaurants and specialty shops. This facility is continually reinventing itself to generate repeat business from the region.

While near to downtown is a Schnuck's anchored retail center, 'big box' retailers are noted by their absence and the City as whole suffers significant leakage of retail spending to nearby County locations. It is the Market Team's conclusion that with aggressive planning, and concerted effort of implementation, the trends can be reversed. Downtown has significant strengths to appeal to retailers which will only be enhanced by the development of the new convention hotel and the Marquette building, as well as the intensified development at Laclede's Landing and along Washington Avenue. Other strengths and related opportunities include but are not limited to:

- The particularly *strong highway system and underutilized surface street network*, along with a variety of public transportation options create a unique opportunity for downtown to regain some of its regional retail center position by focusing on destinational shopping opportunities. In downtown locations with good access, such as Mill Creek Valley, a variety of retail product types could be introduced from "big box" centers along interstates, through "marts" in rehab Class B office buildings, to specialty shops along Olive, 8th and 10th Streets.

- The *planned residential development program* will generate demand for neighborhood serving and convenience retail at Laclede's Landing and along Washington Avenue. The number of units introduced will define the exact size of such development. The Planning Team is in the process of identifying the potential extent of properties available for such development.

- Entertainment oriented retail, restaurants, clubs and cultural venues, such as museums and theaters will *draw local and regional audiences* as well as tourist interest. The best locations will be concentrated around existing nodes of similar activity, along the Clark Street corridor to build on the Union Station strength, at Laclede's Landing concentrating on restaurant and club venues, and along Washington Avenue where galleries, dance studios and similar large square footage users will dominate. The Olive, 6th, 8th and 10th Street areas could attract some entertainment related retail users, but maybe in not quite as informal environment as the Laclede's Landing or as "artsy" as along Washington Avenue. Some locations adjacent to the Mall may be appropriate for a few destination restaurants, such as in the ground level of office structures. The Mall itself will serve as an entertainment venue through the numerous festivals held on the grounds throughout the year.

- Laclede's Landing can also be the site for a state-of-the-art multi-screen cinema catering to regional audiences. Such *destinational use will create synergism* with other facilities of regional draw.

Table IV-15 summarizes the team's estimates for retail market potential by retail product type. The numbers are exclusive of the repositioning of Saint Louis Centre.

Table IV-15
Retail Market Opportunities Years 1 through 5 of Redevelopment

	Absorption Potential (Square Feet of Space) in				
	Year 1		**Year 3**		**Year 5**
Regional Serving Retail Market					
Big Box Retailers at Mill Creek			250,000		300,000
Merchandise Mart(s) in Vacant Class B Space on Washington Ave.			150,000		150,000
Speciality Shops Along Olive, 6th 8th and 10th Streets			25,000		
Neighborhood Serving Retail Market					
Laclede's Landing	10,000		20,000		20,000
Washington Avenue Corridor		10,000		10,000	
CBD Core			5,000		5,000
Entertainment/Cultural Oriented Retail					
Clark Avenue Corridor**					
Laclede's Landing	5,000		10,000		10,000
Washington Avenue	15,000		15,000		15,000
Olive, 6th, 8th and 10th Street Area			5,000		
20-Screen Cinema					
Laclede's Landing			80,000		

** The Planning Team assumes that the street level retail space will be leased by a single entity, space within renovated and leased over time to specialty retailers and entertainment retail oriented users. Local artists, designers and students in arts programs will decorate Windows of the unoccupied space.*
*** The depth of demand along this corridor will depend upon the planned development of Cupples Station, the success of attracting a Smithsonian affiliated museum and the eventual use of Kiel Theater. With them related demand could be substantial, without them, negligible.*

The estimate of potential for additional retail in the downtown is based on current levels of demand as well as anticipated population and visitor growth stemming from Downtown St. Louis' efforts at revitalization. Three principal sources are driving the demand: downtown workers, visitors to the downtown area, and residents of the metropolitan area. Based on present employment, visitation and population statistics, and DSI estimates that downtown has the potential to support approximately 2,460,400 square feet of retail (including both shops and eating/drinking places). A survey conducted by the Downtown Partnership estimates that there is currently only 2,136,600 square feet of retail space occupied. This indicates that the downtown currently has the potential to capture an additional 323,800 square feet of retail. The demand analysis does not estimate the demand for various components of retail, as detailed data on expenditures in the area are unavailable.

The following is the estimated market depth from each of the three major sources of potential demand:

- The Downtown Partnership estimates 88,100 employees work in the downtown area, with the likelihood that the average worker will spend $21.50 per week on retail goods. Using the Urban Land Institute's (ULI) average of $245 per square foot for retail sales applied to Downtown St. Louis, current potential demand generated by downtown workers is then 386,000 square feet. Additionally, there is the potential for downtown to capture almost 21,000 new jobs. If this job growth is realized, additional demand for 92,000 square feet of retail space will be generated.

- *Downtown visitors*, who consist of tourists, athletic spectators, theatergoers, business travelers and conventioneers, represent the greatest potential demand for downtown retail. Based on data from the St. Louis Convention and Visitors Commission, Downtown achieves 16,000,000 visitations per year. These visitors spend an average of $13.42 on eating and drinking and $13.24 other retail purchases. Using ULI's $425 average of retail expenditures per square foot, potential demand generated from visitor expenditures is 1,714,200 square feet. The demand is likely to increase over time, given the St. Louis Convention and Visitors Commission trend for modest increases in the number of visitors to the downtown over the past several years. Furthermore, completion of the new convention hotel will make the convention center a more attractive location for meeting planners. As event planners schedule more conferences in the Downtown, the number of visitors will dramatically increase, thus spurring additional demand.

- Potential floor area demand emanating from St. Louis Area *residential* shopping is derived by looking at four geographic areas which move outwards of the downtown in concentric circles: 0-1 miles, 1-2 miles, 2-3 miles and 3-15 miles. These areas have the capacity to spend $1.03 billion on retail purchases. Applying an average capture of 11% of these dollars to downtown results in over $81 million likely to be spent in the downtown. Using ULI's above noted expenditure per square foot, St. Louis residents can support approximately 325,000 square feet of retail space. As residential redevelopment programs proposed for the area are implemented, retail floor area demand will increase. The Market Team's product program calls for approximately 3,050 units over the next five years, which in themselves will generate increased demand for neighborhood retail stores on the order of 130,000 square feet.

St. Louis must begin marketing its retail space aggressively in order to capture its fair share of demand. Currently, local brokers note minimal effort being put into marketing downtown retail, thus limiting interest in the area.

As much of the existing retail space is in need of renovation and is not easily visible from the street, steps must be taken to reconfigure and improve existing inventory and increase its visibility from the street. In order for downtown to capture its fair share of current and future demand, it is important to create a synergistic tenant mix in the street front retail space along 6th, 8th, 10th and Olive Streets, leased by a single entity, upgraded and reconfigured, and leased out in a planned manner.

Market Driven Product Program Summary

Taking into account the above recommended positioning and potential unit and square footage absorptions in the various land use categories, we compiled an opportunity matrix for the various focus areas in downtown. To be developed in new and rehab structures, the products that are presented in this matrix combine uses that complement one another. In order to insure that the uses are complementary and that the areas are developing along lines that will spur additional future growth, potential demand for some product types has not been maximized. For example, new apartment demand exceeds the recommended number of units at Riverside North, due to the need to support and insure the future of the for-sale housing market. There is a risk of harming future housing sales should potential apartment demand be maximized. Providing new and/or replacement parking necessary for supporting existing and new real estate products is part of the recommended program.

Table IV-16
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**

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.

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.

Generally, potential demand has been maximized, except where physical constraints made such maximization prohibitive. Recommendations for Riverside North do not maximize the market potential for apartments in order to promote townhome and condominium sales. If demand for apartments at Riverside North were maximized, the neighborhood would become primarily a large apartment project, adversely effecting the incorporation of even a reduced size home ownership element. The recommended product array (Preliminary Market Driven Product Program) is presented in a spreadsheet format in Exhibit 1.

The Planning Team has organized the market driven product opportunities into three preliminary planning alternatives. They are described in the section below.