

3

THE MARKET STUDY

The project team conducted a market and economic analysis at the outset of the project in order to determine the current market conditions for a variety of land uses along the Dorsett Road corridor (including retail, residential, office, and industrial) and the potential market for these various land uses along the corridor over the next twenty years. The conclusions of this analysis helped the project team develop preliminary and final concepts for future land uses along the corridor as part of the planning process. The complete market study report for Dorsett Road is included as an appendix to this document, and this section summarizes the main takeaways from the analysis.

Corridor Overview

Dorsett Road enjoys good east-west connectivity within Maryland Heights and very strong north-south connectivity via Interstate 270 to the entire metropolitan area. The current land use mix within the corridor includes commercial / industrial / flex space (57 percent), office (26 percent) and 17 percent retail. The corridor boasts a number of key assets that may support further growth and economic development, including the Maryland Heights Government Center, Edward Jones, Ranken Jordan Hospital, and the new interchange with Interstate 270. The area to the west of I-270 has more of a residential and local retail orientation, while the majority of the area to the east of 270 has a business park or light industrial orientation.

| CORRIDOR STRENGTHS AND CHALLENGES | |
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| STRENGTHS | CHALLENGES |
| Transportation/Access <ul style="list-style-type: none"> Key regional North – South connections at Lindbergh Boulevard and I-270 Approximately a 10 minute drive from the Lambert-St. Louis International Airport Central location within the region | Transportation/Access <ul style="list-style-type: none"> Pedestrian connections across Dorsett present challenges, creating barriers to local residents wishing to access local retail offerings The overall street network in Maryland Heights has weaker north-south connections, further limiting the viability of neighborhood retail and restaurant uses along Dorsett. |
| Connection to Current Demand Sources <ul style="list-style-type: none"> Strong daytime population Located next to significant regional employers (Edward Jones and Ranken Jordan) | Placemaking vs. Demand <ul style="list-style-type: none"> Typically viewed as less prestigious than other east-west corridors in West County (including Olive and Manchester) Currently lacks places or destinations along the corridor that would inherently attract people due to a “sense of place” |

Demographic Summary

The St Louis metropolitan area, as of spring 2012, is at last emerging from the shadows of the Great Recession, with business activity returning to more sustainable levels. Yet, underlying demographic forces limit the upside potential for various real estate uses, not only along Dorsett but along most corridors in the region. The metro area has been growing at less than one percent per year for the last two decades, a rate of population growth around half that of its Midwest competitors, Kansas City and Minneapolis. The majority of new population growth has occurred in outlying counties such as St Charles, Jefferson, and Warren counties in Missouri and eastern St. Clair County in Illinois. Suburban St. Louis County, after decades of growth, has largely “built out” its developable areas, and demographers anticipate at most a few thousand additional households added to the county

over the next twenty years. Maryland Heights, similarly, is a largely built-out suburban community and like many in the region, has a rapidly aging population as well, with a significant pool of residents age 55 or older. However, a significant pool of younger families do live along the corridor, translating into a younger median age for the corridor than the overall city of Maryland Heights.

The Dorsett Road corridor represents one of the key areas of rental homes in the city, with rental units comprising 50 percent of the total number of housing units in the corridor study area. In contrast, only 39 percent of all households in the City live in rental units. The median income of residents along the corridor, around \$50,000, remained below the median household income for St Louis County overall in 2012 (\$55,000).

Retail Market

The U.S. retail market has recovered from the depths of the Great Recession, but the real estate industry has remained cautious with regard to new development. Internet sales of products has permanently removed at least a portion of total retail potential sales in every market as customers use stores as “show rooms” and then purchase products online. Customers have remained somewhat frugal over the last couple years, with memories of the Great Recession fresh in their minds. Developers throughout the country, and particularly in the conservative St Louis market, have held off on launching new retail developments until they have tenants committed and financing in place. Speculative development will likely remain very rare in almost every market both locally and nationally.

The Dorsett Road retail market remains primarily neighborhood oriented, and thus largely serves the residents of the surrounding areas of Maryland Heights as opposed to regional markets for goods and services. Typical tenants in the corridor include fast food outlets, drug stores, dry cleaners, and similar businesses catering to the everyday needs of local residents. Most of the retail centers along Dorsett are of smaller size, typically including 40,000 square feet or less in leaseable space. In general, the retail uses to the west of 270 are performing better than those to the east of 270. The Schnuck's at Dorsett and McKelvey essentially has a firm grasp on the local market, as it is the only grocery store serving the western portion of Maryland Heights directly. Many of the other tenants in the shopping centers west of 270 have firmly established markets with local consumers and represent the only store or businesses of their kind in the local market. For example, the McDonald's and Imo's businesses near Dorsett and McKelvey are the only outlets for these franchises in the western part of Maryland Heights. Again, although 270 provides regional connectivity, very few of the retailers or restaurants draw from markets outside of Maryland Heights. The Bandana's BBQ and the Syberg's at 270 and Dorsett are perhaps the notable exceptions, in that they draw from other nearby communities and traffic from I-270.

Observations of other corridors that intersect Interstate 270 in St Louis County suggest that opportunities may exist for local property owners to create retail or restaurant concepts that would garner a larger share of the regional market, given the good access to the interstate and the community's central location in the region.

The corridor has the potential to add from 42,000 to 124,000 square feet of new retail space between now and 2030. The range of potential square footage reflects different assumptions regarding the capture rates the corridor could achieve of the regional pool of retail demand. Achieving the upper end of the potential retail square footage would likely require

developing an entirely new retail center or two along the corridor. The lower end of the spectrum could be achieved by rebuilding or adding on to an existing center along the corridor.

Opportunities for Retail

Data from the market analysis indicate that the corridor is leaking retail demand to nearby corridors. Updating some of the older retail centers and properties along Dorsett Road could help the corridor recapture a larger share of the local market in the near term. Over the long term, the corridor could enhance its competitive position by consolidating retail into key nodes or projects at key intersections. Better integrating retail uses along with restaurants and even residential or office properties could create demand above and beyond single user developments. Given the suburban nature of the area, mixed-use projects along Dorsett would likely involve horizontal (on the same site, but not stacked above each other) rather than vertical mixed use (such as the development of residential land uses above retail).

| RETAIL STRENGTHS AND CHALLENGES | |
|---|---|
| STRENGTHS | CHALLENGES |
| Strong traffic counts, including average daily vehicle counts of 17,000 west of 270, 28,000 on Dorsett east of 270, and over 150,000 per day along I-270 at the Dorsett interchange | The lack of available parcels or frontage along Dorsett to utilize for redevelopment or repurposing retail projects |
| The area has a stable and large population (including over 76,000 households within five miles of Dorsett and I-270) | Retailers along Dorsett, in general, are not doing poorly enough to justify replacement, but also not doing well enough to justify construction of additional, new retail |
| Local retail rental rates are projected to increase through 2015 and vacancies should continue to decrease | Slow growth in population and households in the local area |
| The presence of significant employment centers nearby, between Dorsett and Page and east of I-270 | |

Office Market

The office market locally and nationally has stabilized over the last few years, but will remain much more conservative going forward. The most likely sources of additional demand for office in the Maryland Heights area and throughout the metro will likely concern medical office uses that serve the surging population of aging Baby Boomers. While the presence of Worldwide Technology and the Edward Jones campus has an overall positive influence on the local office market, the trend of companies to have more workers use less space or to work remotely on occasion will dampen overall demand for office in the future, compared to previous real estate cycles.

The market study projects total demand for additional office space within the Dorsett corridor of 70,000 to 264,000 square feet between now and 2030. Office vacancies near the corridor are fairly high and space along Dorsett is largely outdated and therefore less competitive in attracting new tenants. There is an opportunity to redevelop older office or industrial properties along the corridor into new spaces that would attract better tenants and elevate the overall corridor market position.

| OFFICE STRENGTHS AND CHALLENGES | |
|--|--|
| STRENGTHS | CHALLENGES |
| Strong office anchor in Edward Jones, with potential to expand in the future | Dorsett is not considered a typical location for Class A office. Rather, most of the space is Class C and constructed in the 1970s and 1980s |
| The overall Olive / Westport submarket achieves higher average rents than the overall metropolitan market. | Generally operates at a competitive disadvantage compared to the "favored" Olive corridor |
| Central location in the St Louis market | |

Industrial Market

The flex and research and development (R&D) industrial properties that predominate along the east end of Dorsett, and to the south toward Page Avenue, tend to be older and smaller in size than comparable properties elsewhere in St Louis County and the region. As a result, industrial properties along Dorsett Road tend to have higher vacancy rates and lower rental rates than the overall market, with a reported vacancy rate of 36 percent and rents of only \$6 per square foot. Warehouse and distribution properties near the corridor are somewhat larger, at an average of 45,000 square feet, but report a fairly high vacancy rate of 34 percent and average rents of only \$4 per square foot.

In general, many of the industrial properties along and near Dorsett Road, particularly closer to I-270, represent good candidates for redevelopment, into either new industrial or flex space or into mixed use configurations including a mixture of office, retail, or general commercial uses.

| INDUSTRIAL STRENGTHS AND CHALLENGES | |
|---|--|
| STRENGTHS | CHALLENGES |
| A well-known industrial zone in the region | The corridor and the surrounding submarket have among the highest vacancy rates in the region and many properties are totally vacant or on the market for sale |
| The local market is improving, with anticipated improved fundamentals for vacancy and rental rates through 2017 | Industrial growth in the St Louis market has tended to focus on other areas around the region, rather than this part of St Louis County |

Apartment Market

As increasing numbers of households have shied away from purchasing homes or have been unable to, the apartment markets both in St Louis and nationally have enjoyed solid performance the last few years. Observers anticipate the completion of 400 new apartment units in the St Louis market in 2013 and another 800 units in 2014. The area along Dorsett Road reports lower vacancies and higher rents on average compared to the overall metropolitan market. Maryland Heights is considered a strong market for apartment uses, given the strong market fundamentals and the presence of several larger employers such as Edward Jones that stimulate demand for apartment units. Opportunities likely exist in the local market to either reconfigure existing apartment projects in order to command higher rents, or to build new communities. As with retail, the issue facing the Dorsett Road area is the lack of available building areas, as the area is already built-out. Developers could construct additional apartment units along or near the corridor as part of mixed-use projects including apartments as well as retail or restaurant uses.

| APARTMENT STRENGTHS AND CHALLENGES | |
|--|--|
| STRENGTHS | CHALLENGES |
| Good access to employment | Lack of developable spaces for new apartment construction |
| Apartment projects in Maryland Heights enjoy a 25 to 30 percent rent premium over the average for the local area | Considered a less "favored" apartment market compared to the Olive corridor in West County |
| The two apartment complexes directly on Dorsett Road report vacancies of only 2 to 5 percent. | |
| Potential demand over the long term for additional apartment units, given the aging population in the area and the significant workforce employed in the local area. | |

For-Sale Residential Market

The local for-sale residential market has stabilized and is starting to show signs of life following the housing crash and resulting Great Recession. However, given the built-out nature of the corridor, the City has experienced very little in the way of single family residential construction for several years. Despite this trend, the potential exists to attract, with the right product, additional for-sale residential demand in the local corridor, given the area's central location and adjacency to various amenities. Likely product types would include condominiums, townhomes or small tri-plex units that would attract empty nesters or younger professionals interested in living closer to work. The following reflects overall strengths and weaknesses in the local for-sale market.

| FOR-SALE RESIDENTIAL STRENGTHS AND CHALLENGES | |
|--|--|
| STRENGTHS | CHALLENGES |
| An aging population that would more likely live in townhomes or similar products that could be integrated into the corridor study area | The presence of more prestigious and recognized markets in West County and nearby St Charles County |
| Virtually no new condominium or townhome inventory exists in the local study area | With existing single family detached products already fairly affordable, single family detached projects cannot compete on price |
| Close to employment | The presence of industrial or business park users near Dorsett can create a perception of lower quality |

Conclusion and Recommendations

Many market opportunities exist within the corridor for redevelopment; however, due to the current economic climate and mix of land uses, the revitalization will take time. Leading investment in the corridor is likely to focus on updating aging industrial properties within the corridor. Other strong short-term uses include rental apartments. There are short-term opportunities for smaller-scale commercial uses. These types of opportunities require the correct sites to be identified. There is the potential to create larger-scale projects once a critical mass is created within the corridor, and if a site could be assembled. One of the main challenges in the corridor will be identifying sites large enough to create a catalyst for redevelopment. There needs to be a sense of place and a definable core.

After completing the analysis of each of the land uses within the corridor, RCLCO identified the best short- and long-term opportunities based upon current and future conditions, the outlook for each land use, and an understanding of how the corridor is likely to function in the future.

| Market Opportunity by Commercial Land Use | | | |
|---|---|---|---|
| | Retail | Office | Industrial |
| Short-term Opportunity | Opportunistic – high vacancies and limited land availability | Opportunistic – high vacancies and rents still low for speculative building | Limited – loss of jobs in industrial uses & conversion of properties in area to office |
| Longer-term Opportunity | Moderate – opportunity to consolidate existing & create new “town center” environment | Strong – need to create location, sense of place, and plan to redevelop industrial area | Limited – industrial industries losing jobs & those growing not moving to rehabilitated space |
| Demand Potential to 2030 | 42,000 to 120,000 SF | 71,000 to 264,000 SF | Demand suggests 0 SF, yet likely to have turnover in market |
| Number of Projects | 1 center | 1-5, 50,000 SF buildings | Redevelopment |
| Key Tenants/Buyers | Neighborhood serving/Town Center | Professional services, Medical | Mixture |

| Market Opportunity by Residential Land Use | | | |
|--|---|--|---|
| | For-Rent Residential | For-Sale Residential | Senior Housing |
| Short-term Opportunity | Strong – vacancy low, limited new product | Limited – market for attached for-sale weak | Moderate – demand fundamentals are strong, lack of appropriate site |
| Longer-term Opportunity | Moderate – challenged by site availability and overall demand | Moderate – with the right site and market recovery | Strong – growing number of senior households |
| Demand Potential to 2030 | 120-240 units | 65-130 units | 100-200 units |
| Number of Projects | 1 project | 1 larger or 2-4 smaller | 1 project |
| Key Tenants/Buyers | Young professionals, empty nesters, immigrants | Young professionals, young families, empty nesters | Seniors |

Critical Success Factors for Redevelopment

In order to facilitate redevelopment in the Dorsett Corridor, the City and other interested stakeholders should focus on the following critical success factors:

- Need to create value and facilitate connections—much of the property along the corridor is lower value. In order to increase the value of the land, it will be necessary to identify other, non-retail uses for parcels between the key intersections. These uses need to be connected to each other.
- The market alone won't likely turn the corner for high-value employment opportunities—it will be necessary to start with key parcels, and to help migrate the current uses to high-value employment. The City can help by identifying parcels, working with owners to zone them properly, and in certain cases, assemble key pieces.
- Create focal points in the corridor—key nodes and intersections need to be created. Where there are opportunities to create mixed-use, walkable environments, they should be encouraged.
- Help assemble the land—identify landowners willing to participate, and work with them to put together parcels big enough to attract larger users.
- As sites are identified, work with developers to maximize potential by considering density, market, connections, and amenities—be creative in the use of zoning to ensure the City's vision is executable.
- The corridor has distinct zones and areas that should be explored separately (e.g. east and west of I-270).
- The Dorsett Road corridor contains a unique and interesting collection of businesses (from Gateway Big Dog Motorcycles and R&S Pool & Spa to Arizon Structures and many others). They should join forces to create an identity and name/brand for the area(s)—a further study would be to catalogue and group all of the businesses in the area to look for trends and key “sparks.”
- Showcase the existing businesses—The city should make a point of helping them thrive, not just survive. Look for ways to help small businesses grow by promoting them to St. Louis residents and in the media.
- The city has an interesting opportunity to create a long-term cool vision. After understanding the full make-up of the corridor businesses, determine what the angle in promoting this vision should be.
- Create a marketing and branding campaign—with a name, an effective marketing slogan and a branding campaign, organizers could attract more commerce to the area, supporting the local businesses as well as the city as a whole.
- Create a business incubator atmosphere—Dorsett Road is a unique place in St. Louis where businesses can get affordable rents with good transportation access. The city should use this advantage to draw emerging businesses, from restaurants to hair salons to internet start-ups to creative users.