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Commercial Real Estate Report

# ST. LOUIS 2005

retail

Colliers Turley Martin Tucker

# Market Report

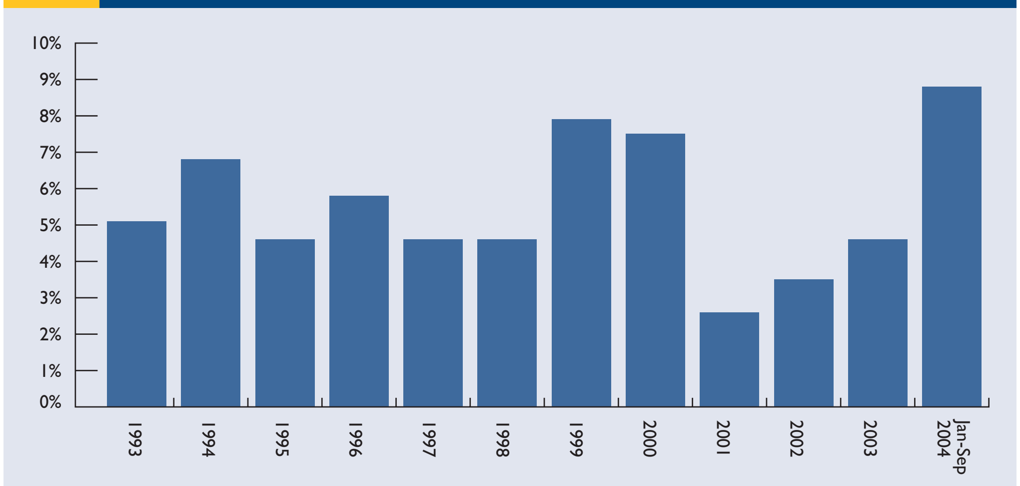
St. Louis, MO

- **Lifestyle centers have gained acceptance as a new avenue for growth by national chains**
- **Department store operations have started to shift from malls to freestanding stores**
- **Sales at warehouse clubs and superstores surpassed those of department stores for the first time**
- **E-commerce sales are approaching 2% of all sales**
- **St. louis retail occupancy remains in the low to mid 90% range**

# National Trends Reflected in Area Development

Percent Change in Retail Sales (Excluding Motor Vehicle and Parts Dealers)

Source: U.S. Bureau of the Census




## National Retail Trends

There is one reliable constant in the realm of retailing and retail real estate, and that constant is change. The past year was no exception.

Lifestyle centers are no longer treated with skepticism, but are viewed as the new avenue for growth for national retail chains. Lifestyle centers are open air centers which recreate a Main Street environment, often mix uses like entertainment, offices and housing with retail, and usually feature high-end retailers. While construction of new regional malls has slowed to a snail's pace, lifestyle centers accommodate specialty chains' expansion plans. Even big box retailers want to attach themselves to lifestyle centers, which by some estimates now number over 100 and are expected to double over the next few years. The combination of power center retailers with lifestyle retailers gives big box retailers neighborhood walk-by traffic rather than destination-oriented traffic only.

Open air retailing is not just for lifestyle centers. Established malls are creating patio seating for their ground-level restaurants, or incorporating lifestyle elements into designs for new centers. Traditional malls see these lifestyle elements as a means of remaining vibrant and viable in an environment in which consumers are demonstrating a preference for the convenience of driving up to the front door of a store and walking directly into it.

Increased interest in close-in housing by empty-nesters as well as young singles has spurred development and redevelopment of lofts, condominiums and townhouses where no new housing had been built for decades. Retailers are finding this new infusion of

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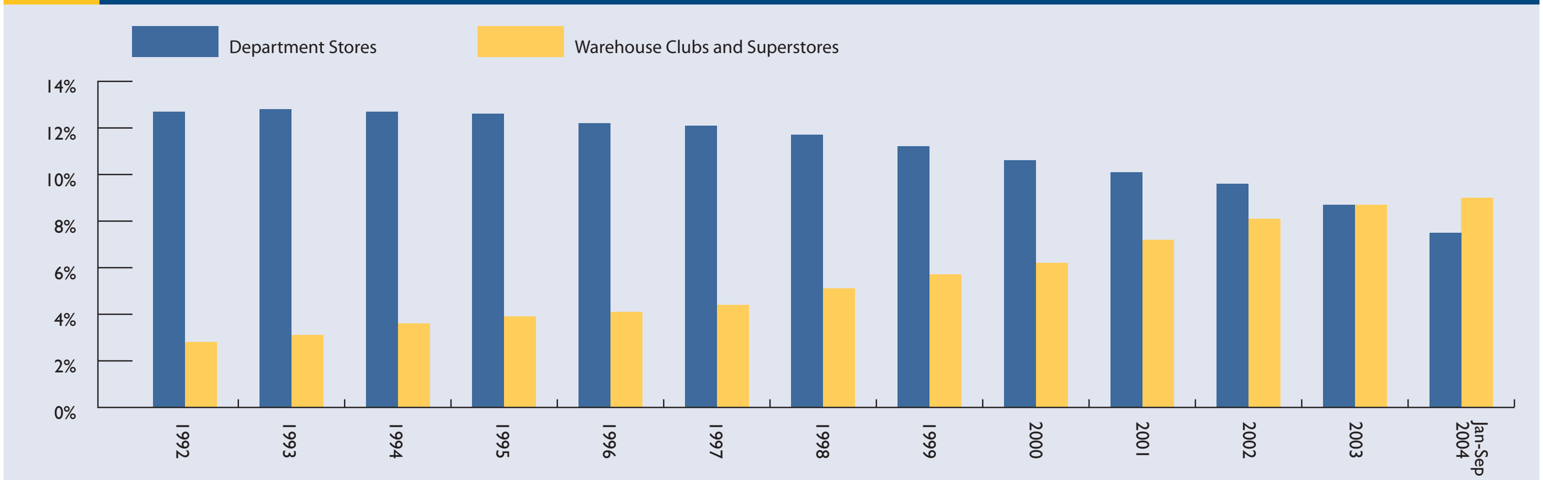
**Percent Share of Retail Sales (Excluding Motor Vehicles and Parts Dealers)**
Source: U.S. Bureau of the Census




housing is creating markets for stores to serve the new residents.

E-commerce sales are increasing 20–30 percent per year while total retail sales increase 6–7 percent. E-commerce sales are approaching two percent of all sales, starting from six-tenths of one percent five years ago. The National Retail Federation projected 2004 e-commerce holiday sales would total six percent of all holiday sales. A Web presence is viewed as a support and supplement to in-store sales for store-based retailers. About 86 million people were expected to shop online in 2004, but not all of them buy. Using the Web as a tool, shoppers will learn more about a product or look for a better price, but after they get their facts online, they are just as likely to go to a store to see and purchase the merchandise as they are to buy it online.

Sales at warehouse clubs and superstores surpassed those of department stores for the first time. Annual sales volume for department stores has been declining since 2001 while warehouse club and superstore sales have recorded annual increases of 12–18 percent. Among specific retail groups, specialty apparel and luxury retailers experienced the greatest gains.

Struggling retail chains continue to turn to mergers and acquisitions to cut costs and become more competitive. The $11 billion merger of Kmart and Sears announced in November 2004 follows on the heels of the June announcement of May Department Stores Company's $3.2 billion acquisition of the Marshall Field's department store chain. Dillard's, also hurt by declining sales and profit margins, is regarded as a takeover target.

And how are shopping malls faring in this mixed retail environment? According to the International Council of Shopping Centers, non-anchor mall sales growth outpaced both chain store and general merchandise sales over the last five years. ICSC attributes the strong sales momentum to mall owners' expertise in tenant selection and mix.

While not disagreeing with ICSC's depiction of sales growth for non-anchor stores, other sources report department store operators have started to shift from malls to more freestanding stores. The merger of Sears with Kmart is expected to accelerate Sears' off-mall push, with the introduction of the Sears Grand stores which combine Sears regular brands with everyday consumer items. Half of the stores J.C. Penney will open in the next year are off-mall, with 75-100 stand-alone stores projected for the next few years.

Although sales for some retail chains stagnate or fall, their real estate holdings represent a significant asset. There are many retailers whose portfolios are worth more as real estate than as operating stores. And even though not all retail tenants have enjoyed strong gains in sales, retail landlords benefitted from healthy lease terms and vacancy rates. The disparity is attributable to expansion activities of retailers seeking new venues while lenders have dramatically reduced the pace of construction generally, and speculative construction particularly. According to Reis Reports, the average vacancy rate for neighborhood and

community shopping centers in 62 tracked metropolitan areas has remained around seven percent for the past two years. Investor interest remains high, keeping cap rates between seven and eight percent.

With so much of retail development occurring in inner cities or inner ring suburbs, developers and economic development agencies will be watching for a U.S. Supreme Court ruling on eminent domain. Most close-in retail development sites require land assemblage and demolition of exiting buildings before proceeding with new construction. Eager for the sales tax revenue produced by new, and especially upscale retail development, economic development agencies employ local governments' eminent domain authority to condemn and assemble land for projects that will produce jobs as well as taxes. Often just the threat of condemnation is enough to speed negotiations between developers and property owners.

Depending on state statutes and local government ordinances, eminent domain can be used to acquire blighted areas for clearance and redevelopment. The definition of blight has been extended in some places to include underperforming economic yield as well as physical blight. The case before the Supreme Court involves a plan by the city of New London, Connecticut, to acquire property through eminent domain that will be redeveloped for uses that will generate tax revenue that the city needs.

## St. Louis Developments

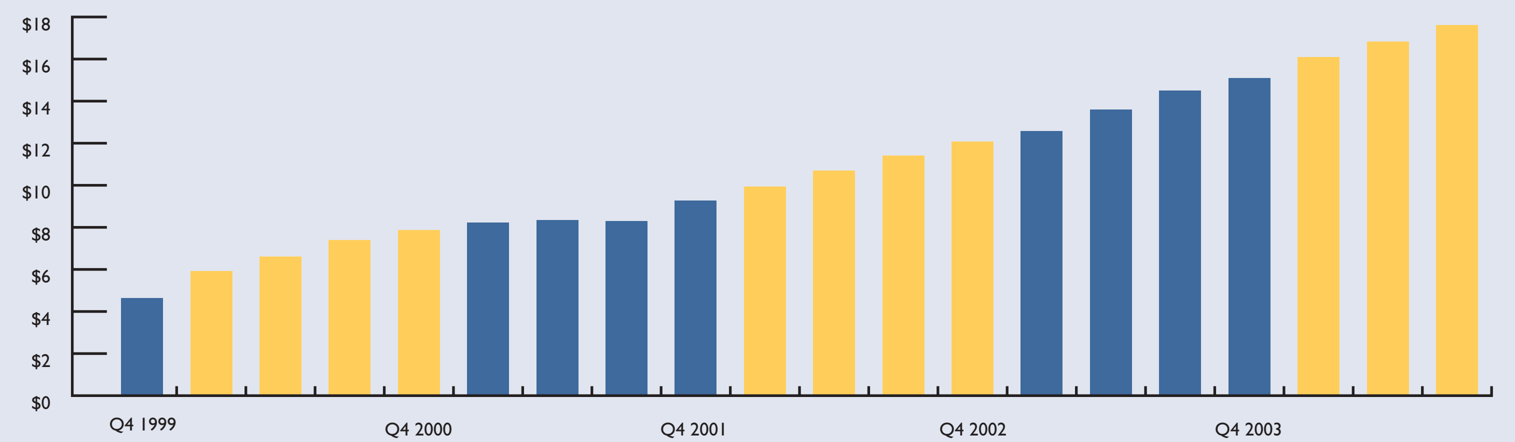
National trends are apparent in the St. Louis metropolitan area, as developers target the expanding suburbs, the rejuvenating city and inner-ring suburban neighborhoods, and the changing lifestyles affecting the fortunes of established retail venues. Refraining from overbuilding, owners maintained occupancy levels in the low to mid 90% range for malls, power centers, community and neighborhood centers, and the mid to high 80% range for strip centers. Occupancy rates continue to be higher than averages for the Midwest but below U.S. averages, according to Reis Reports.

In the City of St. Louis new retail construction added to the MLK Plaza at the intersection of Grand, Page and Martin Luther King Boulevard. On the south side of the city the former Famous-Barr site was redeveloped as Southtown Centre with 98,000 square feet that includes Walgreens, PetsMart and Office Max. In and around Washington Avenue in Downtown St. Louis, several restaurants and furniture stores as well as a grocery store have opened to serve the growing number of loft apartment and condo residents.

Close-in suburbs of Maplewood, Brentwood and Kirkwood scored major redevelopment projects. Maplewood Commons includes Wal-Mart, Sam's Club and Lowe's along with in-line shops and outlots. The 51-acre site was previously occupied by 189 houses and 14 businesses.

Boulevard-St. Louis redevelopment of a strip across from Brentwood's St. Louis Galleria opened with Crate & Barrel and Jared Jewelry; to follow in 2005 are Bombay Co., P.F. Chang's, Strasburg Children, Maggiano's

Quarterly E-commerce Sales (Adjusted, In Billions of Dollars)
Source: U.S. Department of Commerce



Little Italy and Ann Taylor Loft. Boulevard-St. Louis will be the area's first lifestyle center as later construction adds housing and office space. Station Plaza in Kirkwood replaces a Target store with 40,000 square feet of retail space and 215 multi-family units.

Further west in Ladue, redevelopment of a part of the Schneithorst restaurant site introduced 32,500 square feet of office and retail space and 10,000 square feet of restaurant space, along with underground parking for 130 cars.

In Chesterfield the 28-year-old Chesterfield Mall saw its JCPenney store close early in 2004. Its place will be taken by a $71 million section that will include storefronts directly accessible from parking. A 14-screen theater and high-end restaurants will have outside entrances in this lifestyle addition. Chesterfield Valley continued to expand Chesterfield Commons with the addition of Target, Home Depot and Wehrenberg Theater, to grow into a 1.6 million square foot strip center.

Wildwood is planning to recreate a Main Street environment reminiscent of a small town in the Wildwood Town Center. Phase one includes a Walgreen's, Starbucks and Cold Stone Creamery along with other retail space.

Main Street at Sunset is a proposal of Novus Properties at I-44 and Watson Road. With over 400,000 square feet of retail plus office space, the project is expecting approval in the spring of 2005.

Gravois Bluffs in Fenton is adding a third phase with 700,000 square feet that includes American Furniture, Television and Appliance's 135,000 foot store.

On the Illinois side, an addition to the recently built Shoppes at Green Mount Crossing is nearing completion. Also on Green Mount Road, construction is set to begin in 2005 on another center to include a Lowe's and Wal-Mart Supercenter.

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7701 Forsyth Boulevard
Suite 500
St. Louis, MO 63105

Phone: 314-862-7100
Fax: 314-862-1648
www.ctmt.com