APPENDIX A: MARKET ASSESSMENT

Mid-America
Medical District

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East St. Louis, Illinois

April 20, 2010

Prepared for:

The Mid-America Medical District Commission

DEVELOPMENT STRATEGIES®

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10 SOUTH BROADWAY SUITE 1500 ST. LOUIS, MISSOURI 63102 t 314.421.2800 f 314.421.3401 WWW.DEVELOPMENT-STRATEGIES.COM

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Context and Project Scope

The opportunity is to harness the District's assets and create a mixed-use downtown that accommodates employment, retail, and residential uses in a coherent manner, thus creating something lasting.

This study considers the real estate market and health-care industry opportunities that exist for The Mid-America Medical District, a 10 block by 10 block area of East St. Louis, Illinois.

The District's location afford it accessibility, proximity, and visibility that - under ideal circumstances—would make it an attractive location for employment as well as housing. Located directly across the Mississippi River from Downtown St. Louis and near the interchange of interstates 64, 70, and 55, the District is at the center of the St. Louis MSA. However, the area suffers from decades of disinvestment and negative perceptions (crime, schools, etc.) that reduce the District's marketability.

If issues of crime and perception could be overcome, and sites would be readied for development, the District could become an attractive mixed-use community. The opportunity is to harness the District's locational assets and create a area that is coherent, walkable, and economically viable.

This study is designed to assist the Mid-America Medical District commission members in their decision-making process in creating a Comprehensive Master Plan for the orderly growth and management of property within the District. The study considers site context, marketability opportunities and constraints, socio-economic characteristics, existing supply, and demand "opportunity gaps"; these analyses result in our concluded market estimates of achievable rents, sales, lease rates, and absorption. In addition, this study provides strategic recommendations regarding programming, phasing, and land use which will help the District realize its redevelopment goals.

Context and Marketability

Highest and Best Use

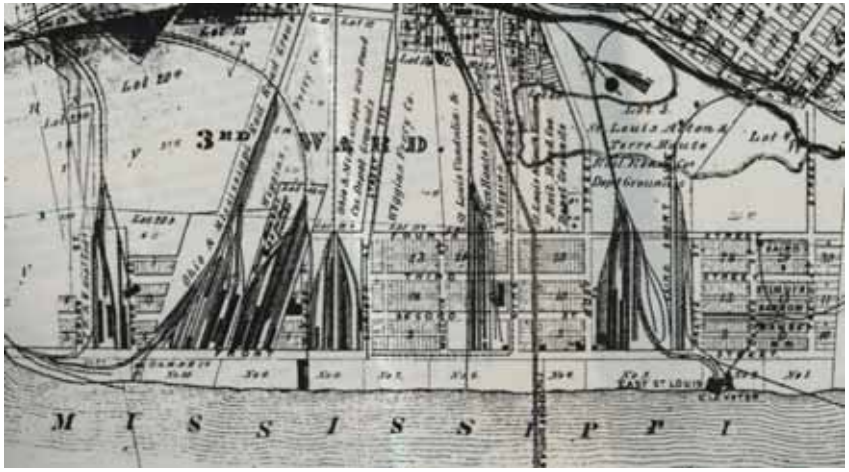
The highest and best use of the East St. Louis riverfront is no longer industrial; rather it is a mix of quality multifamily residential and public space uses. The District's best opportunity is as a walkable employment district with a mix of housing and retail.

Historically, the East St. Louis riverfront developed as a significant "break of bulk" location, in which cargo was transferred from ships along the Mississippi to railways, and visa versa. As a result, much of the riverfront was developed for industrial use (see image of East St. Louis at top right, from 1874), influencing land uses a century and a half later. As a result, the uses currently along the riverfront do not represent the "highest and best uses" for this land today.

If the East St. Louis riverfront were re-imagined today, the most rewarding land use pattern would likely be one that consisted of public space along the riverfront, followed by mid-rise and high-rise residences, since water views and access, as well as downtown St. Louis skyline views, are significant value-generators. Moving further east, land would still have some premium value for residences, provided riverfront public space would be made accessible.

The District, while segregated from the river as a result of I-70 (and thus not as valuable as land along the river), would nevertheless have premium value over other properties to the north, east, and south, because it has good accessibility and is a logical location for centralized commerce (i.e., a downtown or walkable mixed-use district).

In market terms, the opportunity for the District is to realize the highest and best use potential of the location, which is a coherent, walkable mixed use district consisting of employment, quality multifamily housing, and some limited retail development. This opportunity would be made further viable if land along the waterfront were to realize its potential, and nearby single family neighborhoods were to stabilize and revitalize.



SWOT Analysis: Strengths

The District's strengths can become ingredients in a market-based revitalization strategy.

- **Proximity to Employment Center:** The District is less than one mile east of Downtown St. Louis, an employment center with nearly 100,000 jobs.

- **Existing Employers:** The District has some significant employers around which to organize a strategy. For example, the presence of a federal courthouse is typically a magnet for law firms. This opportunity has yet to be capitalized upon in East St. Louis. The Kenneth Hall Hospital and East St. Louis Higher Education Center are significant employers around which medical, research, and ancillary uses might be oriented.

- **Downtown Views**: Views of Downtown St. Louis and the Gateway Arch from future high rise and mid rise buildings are obvious value-generators that could be capitalized upon in a market based revitalization strategy.

- **Historic Rehab Potential:** Some vacant or underutilized buildings in the District have potential for historic rehabilitation, for which various tax credits and subsidies are available. Well-maintained historic buildings enhance character and sense of place, boosting the marketability of the District.

- **Majestic/Collinsville:** The historic main street of Collinsville, centered around the Majestic Theater, has a collection of historic buildings that, while poorly maintained, represent the best opportunity at creating a viable, recognizable place with which to improve the image and marketability of the District and, perhaps, East St. Louis.

- **Access and Visibility:** The District is adjacent to multiple interstates and a MetroLink station is situated within the District boundaries. It is visible from downtown St. Louis, which has an annual visitor tally in the millions.

- **A Revitalized Downtown Environment**: The District could be revitalized as a dense, walkable, urban area with a mix of uses, a concentration of employment, and a vibrant retail and restaurant area.

SWOT Analysis: Weaknesses

The District has various external and internal weaknesses and constraints that hinder marketability if left unaddressed.

- **Business Climate:** Interviews with developers reveals a general perception that East St. Louis governance is unwieldy and inconsistent in providing approvals for the development of land and establishment of new businesses. This reputation has hindered growth in the city.

- **Perception of Crime**: Whether real or perceived, crime is a marketability concern that must be overcome to attract new residents and businesses.

- **Perception of Schools:** The perception of public schools in East St. Louis is that they perform poorly; this must be addressed if new residents, particularly those with school-age children, are to be attracted to new housing in the District.

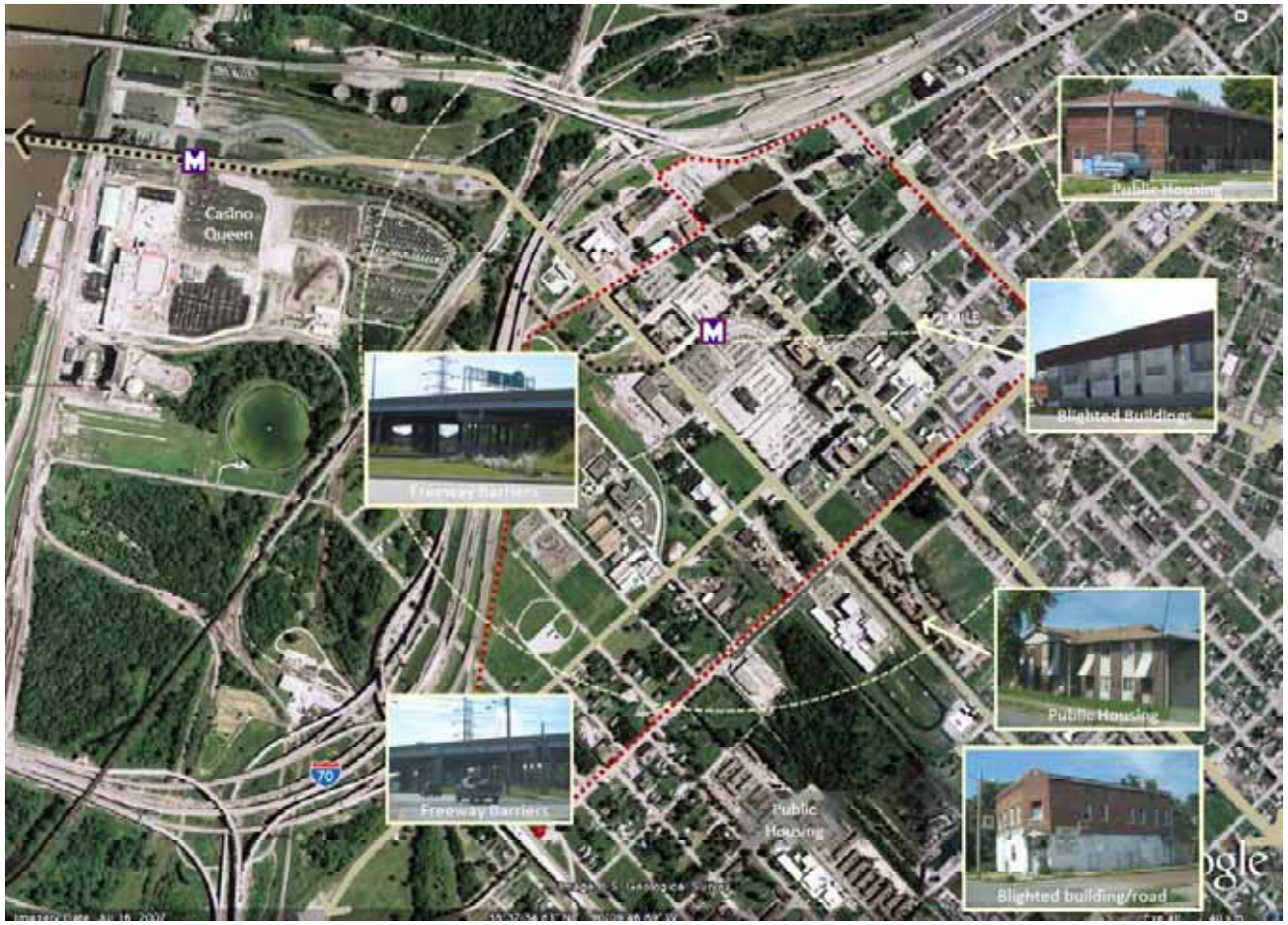
- **Decaying Infrastructure:** whether it is potholes, cracked sidewalks, a lack of curb and gutter, an untrimmed landscape, overloaded storm sewers, or boarded up windows at city hall, the poor condition of infrastructure is a marketability hurdle, since these issues indicate decay and a lack of reinvestment, turning away would-be homebuyers and entrepreneurs, who shy away from perceived investment risk.

- **Vacant Lots:** This is both a weakness and an opportunity. Vacant lots indicate a lack of investment; they also remove a barrier to redevelopment.

- **Vacant Buildings:** Similar to vacant lots, empty buildings represent a weakness and an opportunity.

- **Freeway Barriers**: The District is separated from the east riverfront by elevated freeways, which has a blighting effect on the area.

- **Public Housing**: While public housing serves a valuable public policy goal of providing housing to low income populations, the concentration of deeply-subsidized housing on the periphery of the District is a marketability constraint.



Demographic Analysis

Definition of Primary Market Area

The residential Primary Market Area consists of the "Below the Bluff" communities, which consist of approximately 120,000 people.

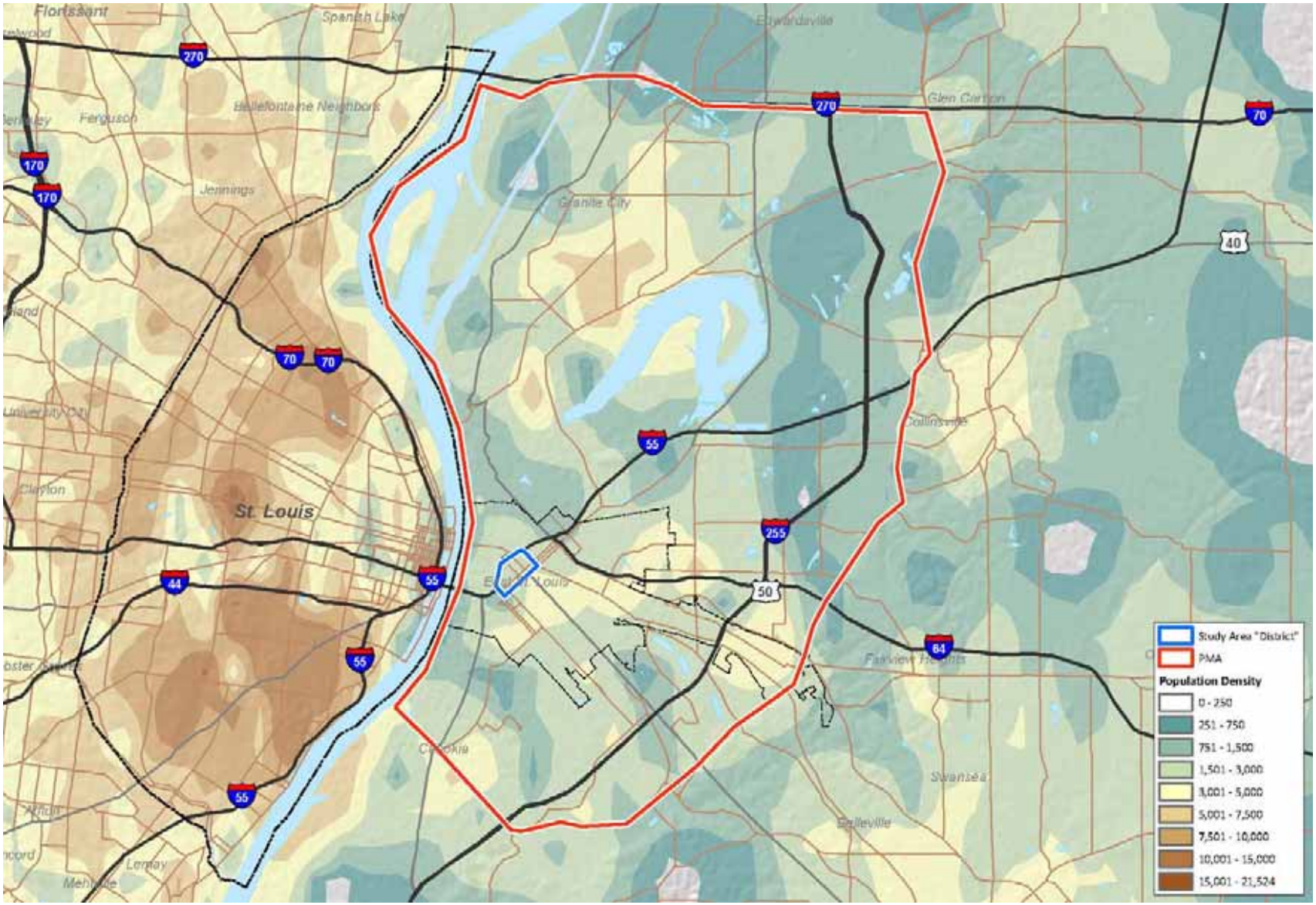
The residential Primary Market Area (PMA) is defined as the smallest geographic area that typically generates between 70 to 80 percent of the support for a project.

This study concludes that while riverfront development could—assuming large-scale redevelopment, remediation, and elimination of nuisance and incompatible uses—draw from a regional market area (because of the attractiveness of views, etc.), the District could draw from a smaller, market area that consists of what are generally known as the "Below the Bluff" communities in Metro East.

This is still a significantly-sized market area, as the map on the following page shows. The population of the PMA is approximately 120,000, and is most representative of likely residents for any proposed project in the District.

A map summarizing the boundaries of the PMA and population density within the area is included on the following page.

Primary Market Area and Population Density



Demographic Analysis

Population and Housing

The PMA is declining and generally consists of low– and moderate-income residents—particularly in the western portion of the market area. Very few people currently reside within the District boundaries.

The Primary Market Area (PMA) consists of roughly 117,000 people, a five percent decline from 2000, whereas St. Clair County, the Metro East, and the St. Louis region increased modest amounts.

Though East St. Louis continues to lose population at an unacceptable rate, evidence indicates that the decline is slowing. This is not an isolated occurrence, as many "peer cities" have experienced a similar trend of "bottoming out." This may indicate changing attitudes about urban living; as a result, East St. Louis may be poised for new investment.

Various businesses, including retailers, have avoided locating their businesses in the PMA, while many existing businesses have vacated the area. Despite this decline, the retail analysis of this report will demonstrate that there are opportunities to capture unmet retail demand in the market. This indicates that some businesses have left not as a result of population loss, but because of crime and the perception of an unsupportive business environment.

Like the rest of the St. Louis region, single family homes comprise the majority of dwelling units in the PMA (71 percent). Residences in the PMA consist of a high percentage of rental housing (49 percent). Downtown East St. Louis, or the District, has very little residential population, and the majority of housing options in the District are in a few modest single– and multi-family properties.

Population Trends

Description	*District*	*PMA*	*East St. Louis*	*St. Clair County*	*Metro East*	*St. Louis MSA*	*Illinois*
Population							
2014 Projection	121	115,641	28,855	270,418	544,417	2,920,927	13,412,757
2009 Estimate	127	117,653	29,450	266,176	535,562	2,850,518	13,114,513
2000 Census	157	124,048	31,542	256,082	515,023	2,698,687	12,419,293
1990 Census	221	144,152	40,940	262,852	512,090	2,580,897	11,430,602
Growth Rate							
Growth 2009-2014	-5%	-2%	-2%	2%	2%	2%	2%
Growth 2000-2009	-19%	-5%	-7%	4%	4%	6%	6%
Growth 1990-2000	-29%	-14%	-23%	-3%	1%	5%	9%

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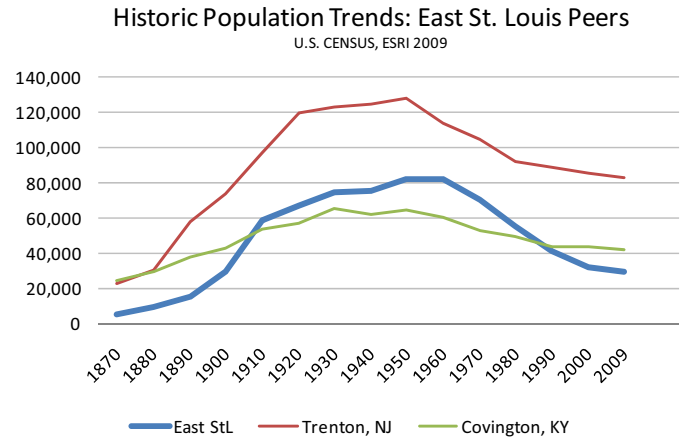
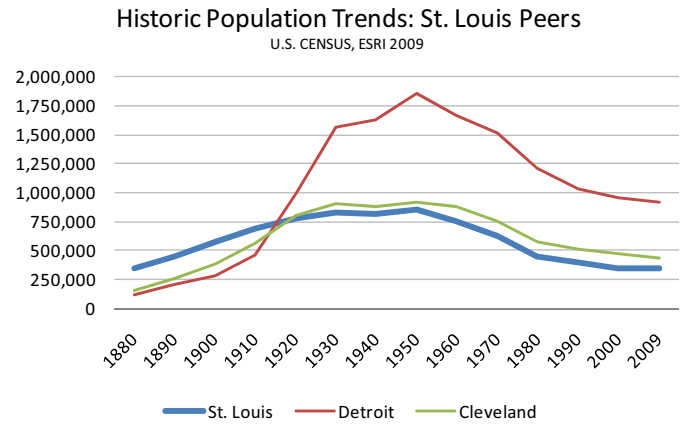




Age and Income

Although population is expected to decline in the PMA, two age brackets—empty nesters and seniors—are projected to increase substantially. Family households are anticipated to decline. This points to a need for more compact forms of housing, specifically those designed to accommodate senior living styles.

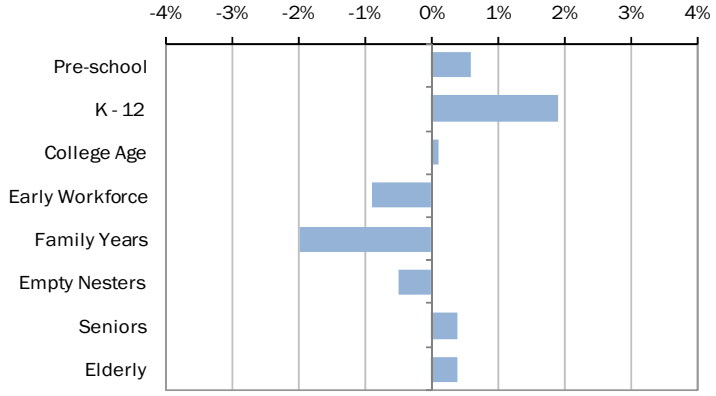
Age Comparison: Overall, the PMA has a larger proportion of children than Illinois, resulting in a lower median age within the study areas. Despite a higher proportion of children, the PMA is also somewhat under-represented in the early workforce (25 to 34) and family years (35 to 49) cohorts, while seniors and elderly are fairly comparable to the state-wide average. This indicates that children are being cared for by young parents (18-24) or grandparents.

Projected Growth: Demographic projections reveal a great deal about future housing demand; in this case, they point to a need for housing designed specifically for older populations. Although most age brackets in the PMA are declining in population, the senior and empty nester cohorts are projected to grow substantially during the next five years. This indicates potential demand for various types of senior housing, including independent living communities and/or assisted-care facilities. On the flip side, family households are generally expected to decline, which will temper demand for single family homes.

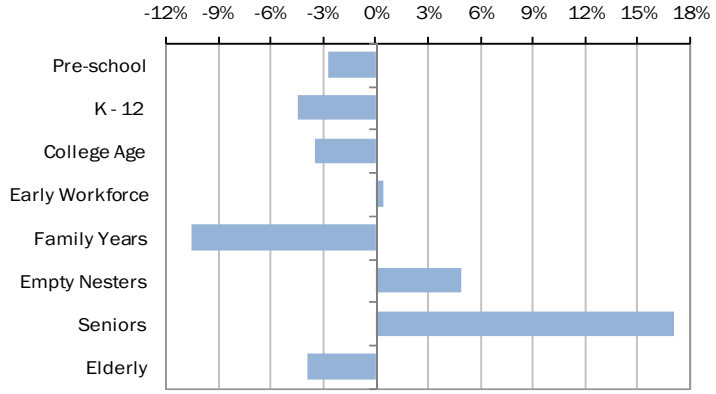
Income: Residents in the PMA, on the whole, have relatively limited means. The median household income is about $38,300—roughly $21,600 less than the regional median, and $24,500 less than the state median. This is particularly significant, since the eastern portion of the PMA consists of a higher proportion of relatively high-income earners, while those areas in the western portion, specifically in East St. Louis and in the District, have a much higher proportion of households with very low incomes.

One troubling indicator is the dire economic situation for a vast number of residents in the PMA. In 2009, a family of three that earns below $18,300 is considered to be in poverty. A rough estimate indicates that nearly one-quarter of the PMA meets this criterion, while roughly 40 percent of households in East St. Louis are below the poverty line. The federal poverty percentage is 12.5 percent.

Age Cohort Comparison Chart
PMA (when compared to state average)
Source: ESRI, 2009



Projected Population Growth
Primary Market Area: 2008-2013
Source: ESRI, 2008



Median Income Trends

Description	*District*	*PMA*	*East St. Louis*	*St. Clair County*	*Metro East*	*St. Louis MSA*	*Illinois*
2014 Projection	$9,706	$39,065	$26,218	$52,637	$55,132	$59,820	$63,631
2009 Estimate	$9,211	$36,293	$25,288	$49,617	$51,645	$57,853	$60,823
2000 Census	$9,999	$29,102	$21,205	$39,112	$40,503	$44,035	$46,635
1990 Census	$5,560	$20,568	$12,671	$26,813	$28,212	$31,423	$32,252
Growth 2009-2014	5%	8%	4%	6%	7%	3%	5%
Growth 2000-2009	-8%	25%	19%	27%	28%	31%	30%
Growth 1990-2000	80%	41%	67%	46%	44%	40%	45%

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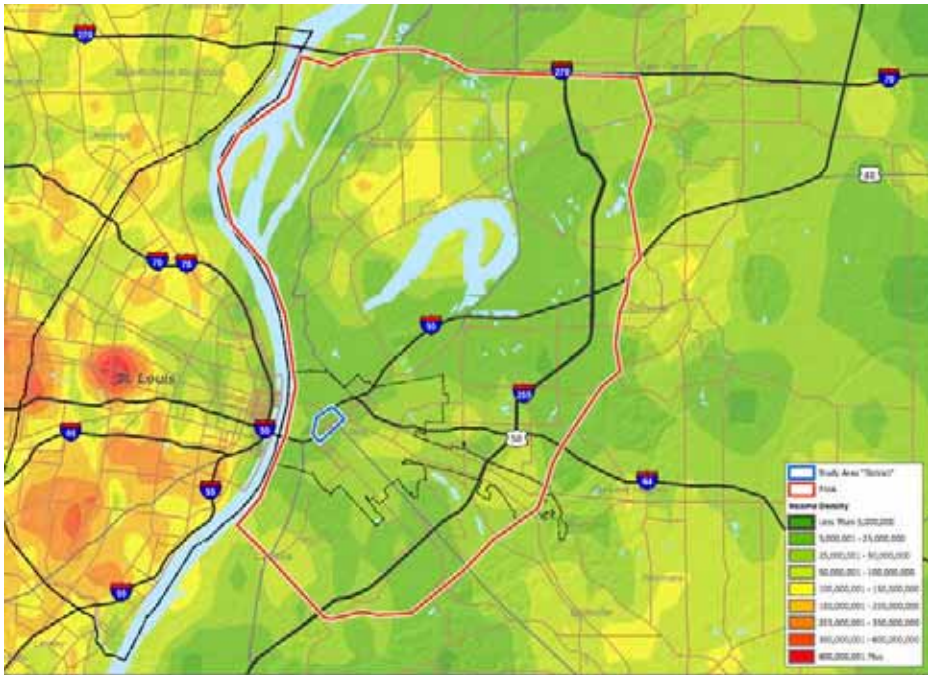
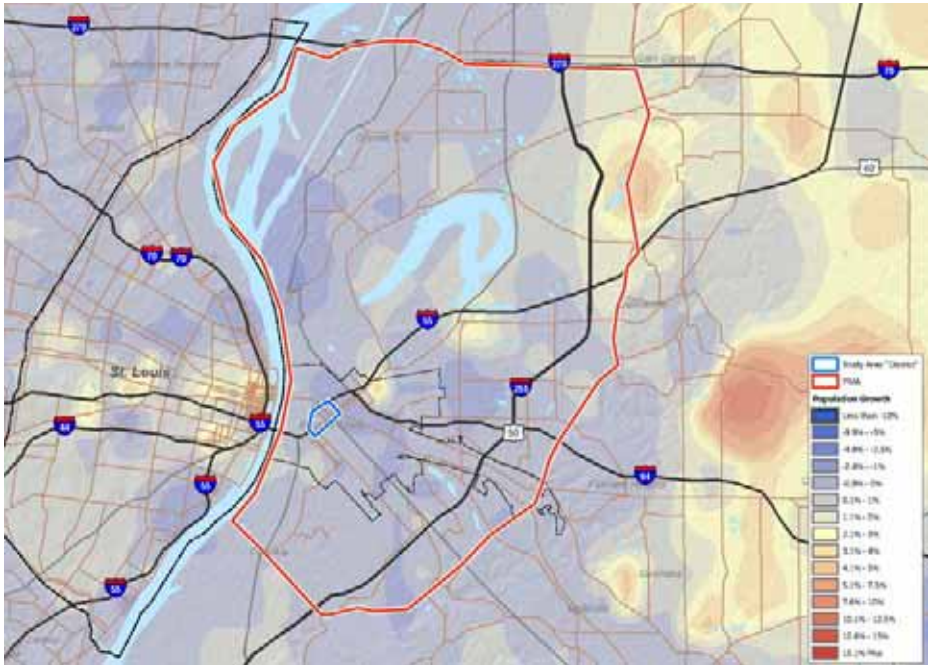
Demographic Analysis: Residential Market

The PMA includes some of the region's lowest urbanized concentrations of both population and income.

Median Household Income (2009): The map at top shows median household income, with areas of greatest income in red-orange, and areas of lowest income in green. The map clearly shows "hot spots" that are primarily concentrated in southern and western St. Louis City and central St. Louis County, both well west of the PMA. In the PMA, there are very few areas of concentrated income, a depth and breadth of low- and moderate-income households.

Population Growth (2000-2009): The map at bottom shows population growth trends between 2000 and 2009, with areas of greatest growth indicated in red, and areas of least growth in purple. The map shows that most areas of growth are located outside the PMA, in far eastern portions of the St. Louis region. A few specific areas of both the PMA and St. Louis City experienced growth during the past nine years, but most has occurred in suburban areas of the region. As a result, prevailing trends and patterns would concentrate new development in Metro East's eastern suburbs, yet our analysis will reveal some limited opportunities to provide retail to underserved populations in the PMA.





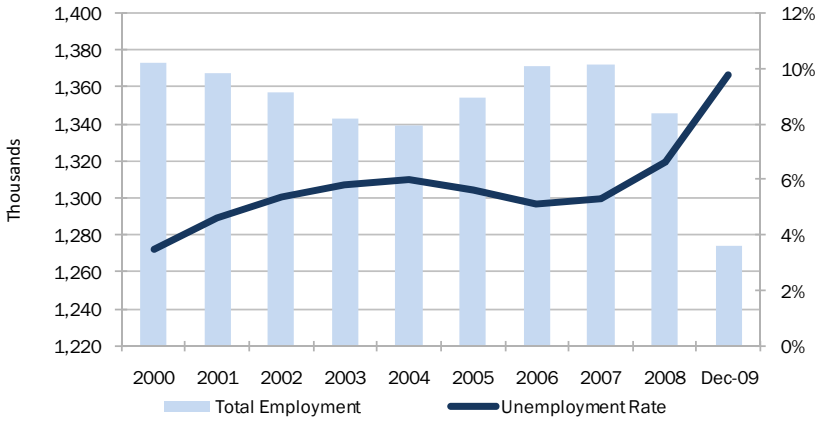
Economy and Employment Overview

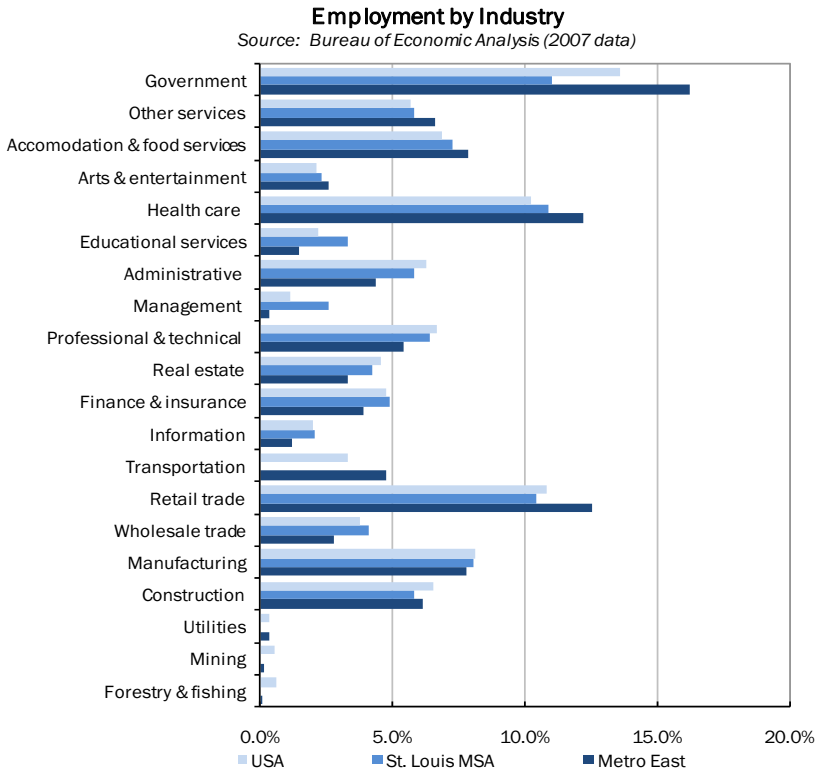
Economies are cyclical, and the nation is currently recovering from its deepest recession since the Great Depression. Still, the economy is cyclical and long term growth curves are persistently upward. Development projections must span a sufficiently long period to account for market fluctuation.

Presently, the nation is recovering from an economic recession resulting from failures primarily in the housing and financial sectors. This undoubtedly had a strong negative impact on the market (see the Housing Overview in the residential section of this report). Projections for the District should be sufficiently long—say, 15 to 20 years—to account not only for absorption, but for at least one downturn and one upturn. Projections should neither be overly pessimistic (as they often are during a downturn), nor overly optimistic (as they often were during the housing boom of the previous several years). Our analysis, therefore, will try to take into account "big picture" trends—e.g. regional population, employment, and housing growth—over many years, as opposed to the past 18 months.

Regional Employment Trends: After four years of steady employment gains, the St. Louis region experienced considerable decline, losing almost 100,000 jobs in 2008 and 2009. This is the equivalent of 7.1 percent of the workforce. By comparison, the nation lost 6.1 percent of its workforce during the same period, so the region is slightly under-performing the nation, in a relative sense. On the other hand, regional unemployment is slightly lower (9.8 percent, compared to 10.0 percent nationally).

National Indicators: Other figures reflect the current underperforming economy, including the "flattening" of wage growth, decline in home prices, and sluggish retail sales. However, some recent metrics indicate that economic recovery may be underway. As the national economy improves, so too will the St. Louis region.





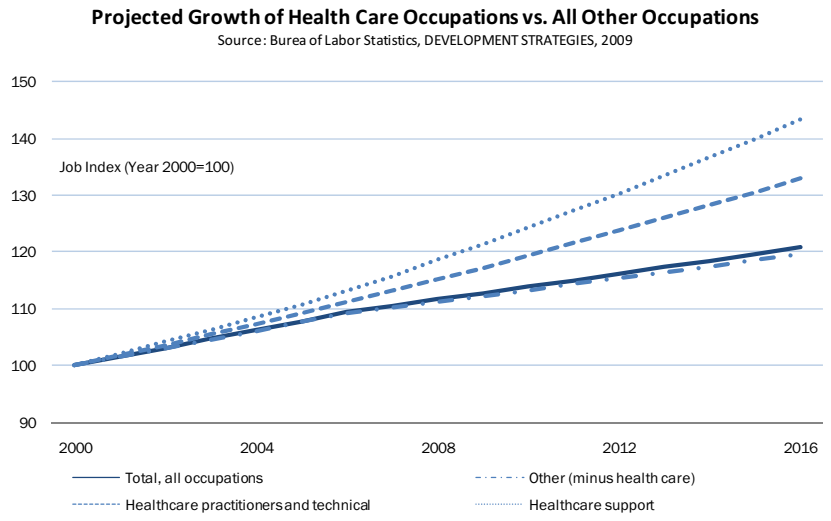
Health Care Sector

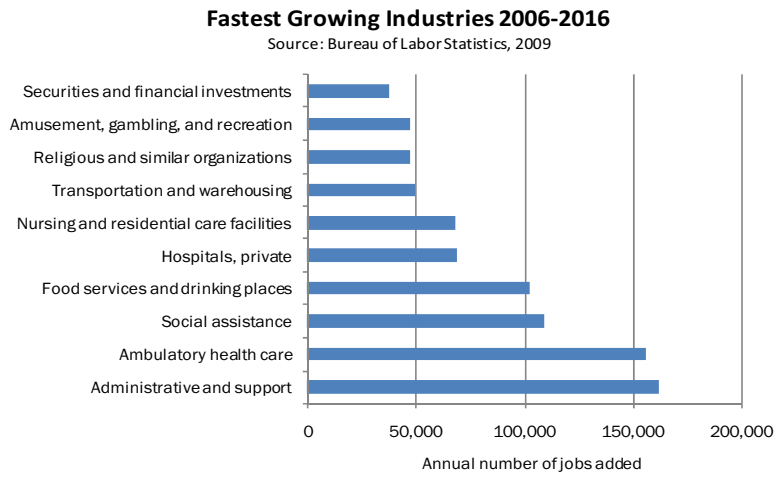
Although the future of health care is uncertain, jobs in various health care sectors are increasing at substantial rates, a trend that is expected to continue through 2016.

The planning area's potential position as a Medical District will make it more competitive in capturing future job growth. Despite the recession and various issues within the health care industry, national health care employment increased substantially from 2000 to 2006, a trend that is projected to continue and likely accelerate through 2016. While many other employment sectors are expected to contract or remain steady, the health care industry is expected to provide the largest contribution to future job growth. The chart at top right summarizes the actual and potential growth of health care employment in comparison to all other occupations.

Much of the projected growth in the health care sector will be focused in specific industries or fields. Of the nation's ten fastest growing occupations, four are health care related. This includes ambulatory health care, social assistance, hospital staff, and nursing occupations. Other positions in research and knowledge-based occupations have also increased and are rapidly becoming focal points for many local economic developers.

The rapid growth of these types of occupations represent great opportunity for facilities and office space within the District. Additionally, rising demand for these occupations, specifically nursing or ambulatory services, indicate a need for additional education programs and facilities, sufficient clinical training sites, and other complexes designed to accommodate this growth. Substantial investments in these types of facilities, amongst others, can improve the District's standing as a "Medical Center" and can be a catalyst for additional ancillary development throughout the District.





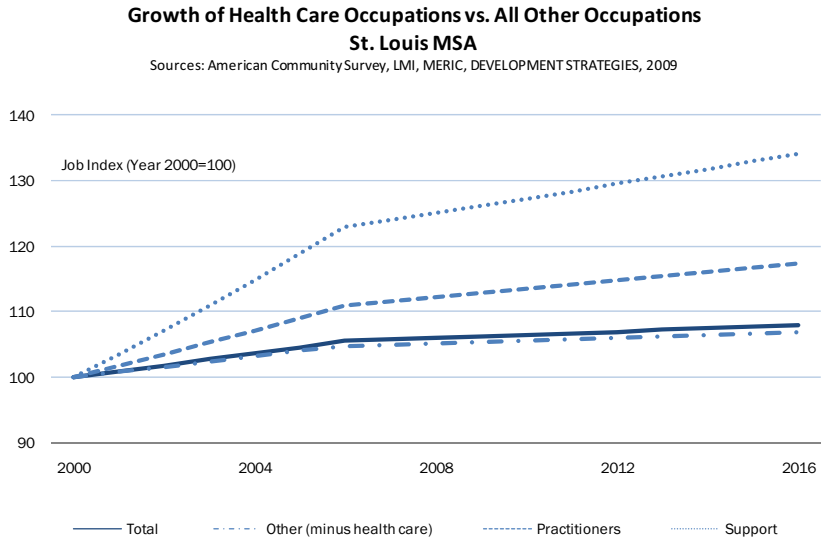
Health Care Sector—St. Louis

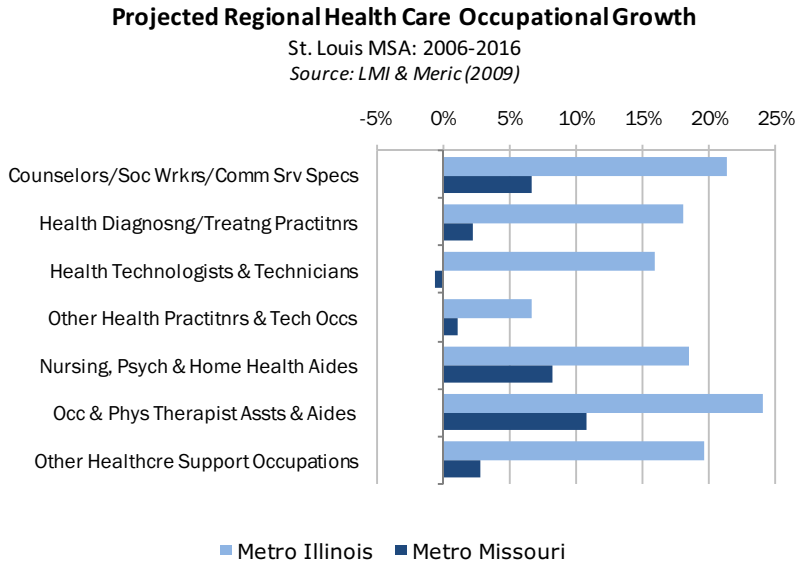
Similar to the nation as a whole, health care related jobs in the St. Louis Metropolitan Area are increasing at substantial rates, a trend that is expected to continue through 2016.

As a region, St. Louis is highly competitive in terms of job growth within the health care sector. According to mid-year 2009 employment data from the U.S. Bureau of Labor Statistics, the St. Louis region ranked 16th amongst the nation's 100 largest labor markets for jobs added in education and health services over the past year. Although the current recession is having a negative impact on other occupational sectors, St. Louis added roughly 3,500 health care and education services jobs during this time period.

Similar to the nation as a whole, regional job growth in the health care sector far outpaced gains in all other occupations from 2000 to 2006, a trend that is projected to continue, albeit at a slightly lower rate, through 2016. This is especially true for health care support positions which increased 3.5 percent annually from 2000 to 2006, but is projected to grow just 0.8 percent annually during the next ten years.

Within the overall St. Louis health sector, certain occupations are projected to increase at substantially higher rates. This includes nursing, psychological, and home health aides jobs, which are estimated to expand 14 percent during the next ten years. Occupational and physical therapist jobs are also projected to grow substantially (11 percent). Although the majority of these jobs are located in Missouri, the Illinois side of the region is expected to experience a much larger proportion of this growth, as shown in the table on the right.





Reform

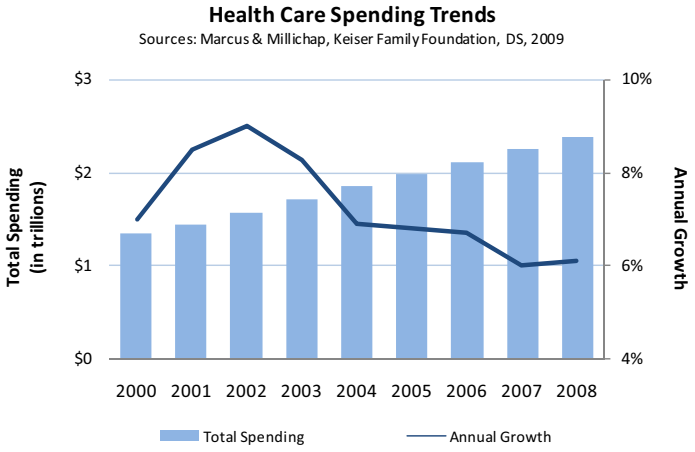
Much of the recent increases in health care employment is due to substantial growth in health care spending and costs. As one of its top priorities, the Obama administration signed into law a new health care reform bill which aims to expand coverage to the uninsured while effectively reducing costs.

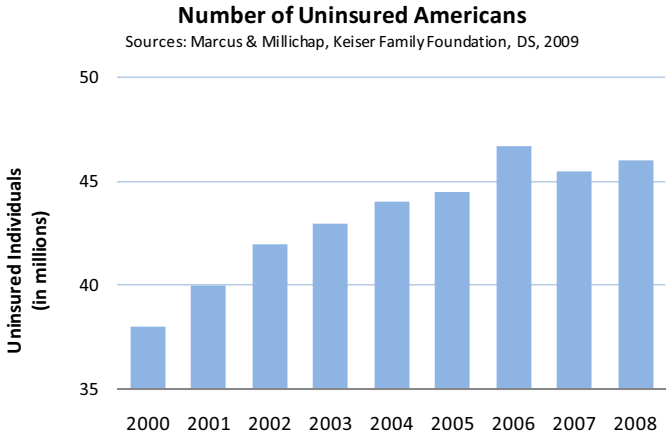
In March 2010, the Obama Administration signed into law a new health care reform bill that aimed to expand coverage to the currently uninsured, while effectively reducing costs. While there are varying degrees of consensus on major trends, forces, and effective reform policies needed, the greatest agreement appears to be with the notion that reforms could have a substantial impact on the health care sector.

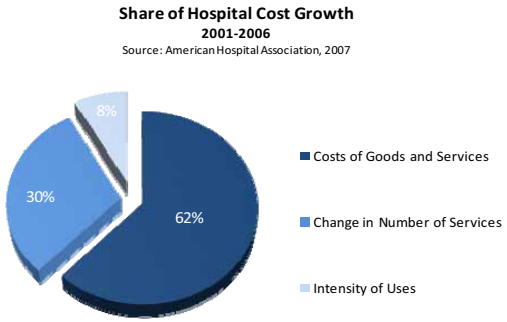
One of the primary principles behind the administration's push for reform is the rise in health care costs, which has been a catalyst for recent employment growth in the health care sector. According to the Kaiser Foundation, health insurance premiums increased 6.8 percent annually from 2000 to 2008, far outpacing growth in household incomes (2.3 percent). Additionally, health care costs currently constitute about 17 percent of Gross Domestic Product, a roughly nine percent increase since the 1980s. These increases are due to a combination of factors, including rising demand for care from growing senior and elderly populations, rising costs to hospitals of the goods and services necessary to provide care, and growing intensity of care needs.

Coupled with rising costs, the number of Americans without adequate health insurance coverage is at record highs. As of 2007, an estimated 45.7 million Americans, or roughly 16 percent, were uninsured, a figure that is expected to increase an additional 6.9 million individuals by 2010.

Although health care reform may reduce and slow the growth rate of these costs and spending, it could potentially lead to an expansion of coverage for millions of people and a likely increase in demand for health care workers, services, and facilities. This represents a unique opportunity for the District to position itself as a center for new medical office growth within the St. Louis region.







Reform

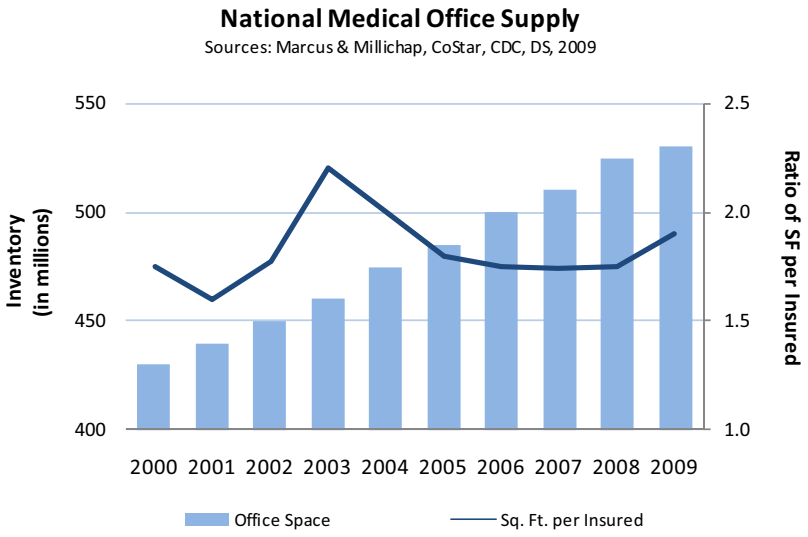
Successful reform measures will likely result in the expansion of health insurance coverage to currently uninsured individuals, which will increase demand for new medical facilities and office space.

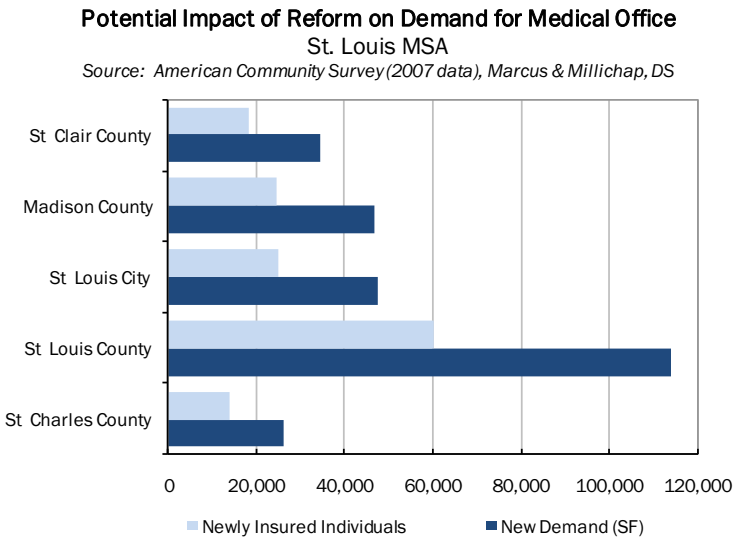
While recent employment growth is due primarily to sharp increases in the costs of care and the effects of reform remain uncertain, it appears likely that demand for new physicians and nurses will not be reduced. Instead, if reform, is even partially successful, demand for these occupations will increase, which will lead to new opportunities for the development of medical office space.

According to Marcus and Millichap Research Services, there is nearly 550 million square feet of medical office space within the U.S., representing approximately 1.9 square feet of space per insured individual. Assuming that reform is relatively successful, and the nationwide health insurance coverage rate increases from the current rate of 84 percent to 95 percent, they estimate additional demand for more than 61.9 million square feet of medical office space will be created based on the current ratio of 1.9 square feet per insured individual.

Within the St. Louis metropolitan area, the American Community Survey estimates that approximately 290,000 individuals, or roughly 12.4 percent of the population, were without health insurance in 2006, a figure that likely increased during the past three years. Assuming that coverage is expanded to 95 percent within the metro area, we project that there will be about 175,000 newly covered individuals, resulting in new demand for roughly 330,000 square feet of new medical office space.

We project that St. Clair and Madison counties will account for nearly 100,000 square feet of new medical office space development, a portion of which could be developed within the District. The increase in insured individuals and subsequent demand for new medical office space for the five largest counties within the St. Louis metro area is summarized in the table on the right.





Biotechnology Research

Biotechnology is defined by the Biotechnology Industry Organization as "the use of cellular and biomolecular processes to solve problems or make useful products."

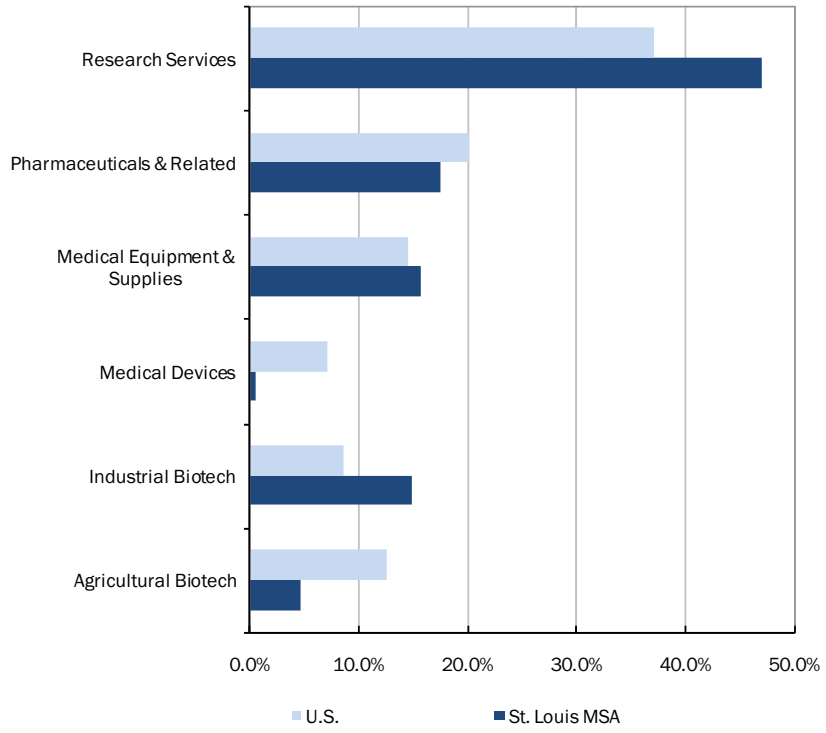
In order to capitalize on the economic development potential of the St. Louis region's existing major higher educational, research, and health care institutions, regional leaders have engaged in various efforts to spur growth in life sciences research, development, and commercialization, or "biotechnology" industries. These investments can have a profound impact on the regional economy, although many of these benefits have yet to be realized as new innovations and product development often takes many years to occur.

While high technology industries such as "biotechnology" have relatively small employment bases, employees in these occupations often have substantially higher incomes and have the potential to generate more "spin off" development than other industries.

The St. Louis region, though it still lags behind various national leaders in the commercialization of biotech products, has been identified by the Brookings Institute as one of four metropolitan "research centers." This indicates that while the commercial development is lacking, there is a high proportion of research activity, which could eventually lead to technological breakthroughs and substantial contributions in economic activity.

In order for the Medical District to capitalize on potential growth in biotech sectors, it would need to align itself with area educational institutions, specifically the University of Illinois and Southern Illinois University at Edwardsville, and provide various development opportunities afforded by land that is currently vacant or underutilized within the District.

Biotech Employment by Industry Subsector
Source: BLS, Biotech Work Portal (2006 data)



Note: Due to recent changes in NAICS coding, "research service" occupations have not been included in Biotech Employment.

Biotech Employment, 2004-2007
"Research Centers"

City	2004	2005	2006	2007	Growth
Chicago	30,082	30,803	29,517	29,778	-1%
Detroit	2,094	3,536	3,668	3,529	69%
Houston	8,163	7,599	8,038	7,656	-6%
St. Louis	5,248	5,331	7,809	7,906	51%

Source: Biotech Work Portal, Brookings Institute, DS

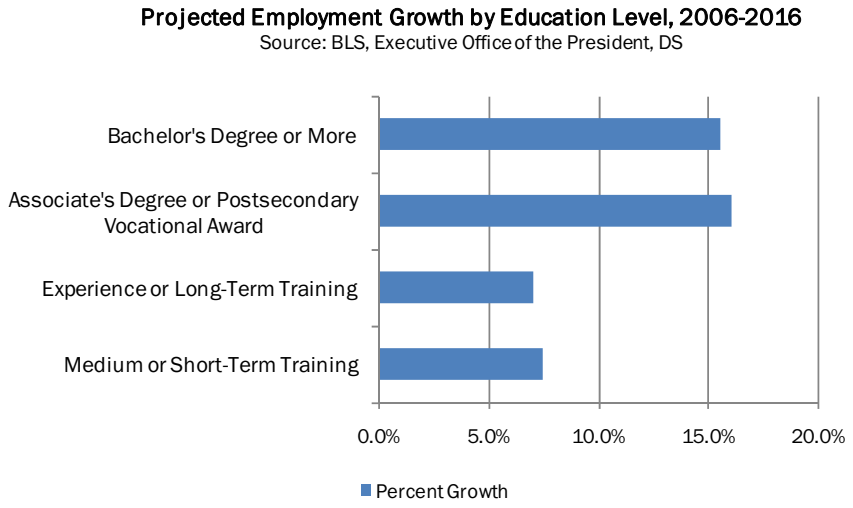
Additional Opportunities

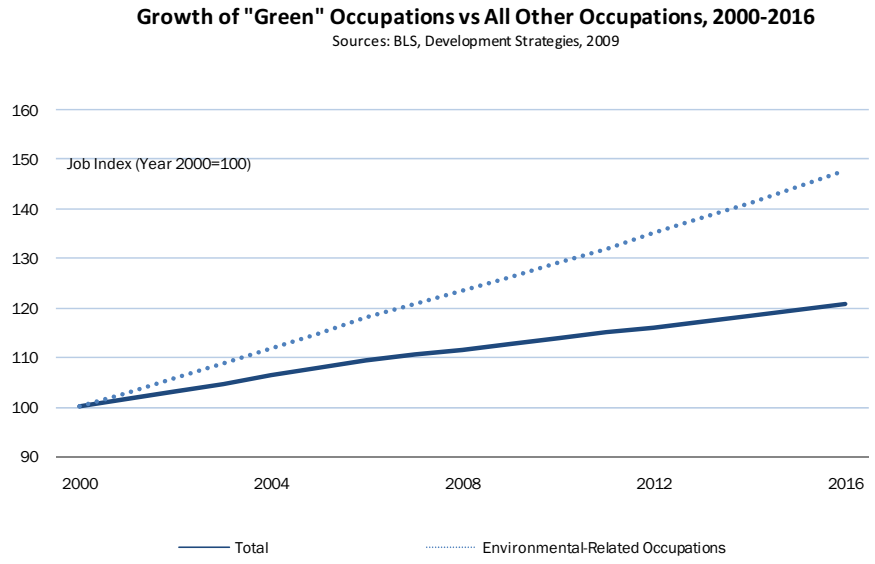
Various occupations related to health care are expanding at high rates and have the potential for additional growth. These occupations represent an opportunity for the District to expand its current educational and clinical facilities.

The jobs of the future will require higher levels of education and training, giving the District additional opportunities to capitalize on the demand for training and education sites. Existing educational facilities within the District, and their association with SIUE, give it the capability to expand certain post-secondary education programs and provide associated training opportunities at clinical sites within the District.

Consistent with recent trends in health care related fields, jobs for medical records and health information technicians are projected to increase substantially over the next ten years, and will likely accelerate, as public and private investment in health information technology expands. Other trends in health care include the rise in preventative care and wellness centers, a likely feature of the Obama Administration's reform plan.

Another occupation group that is showing significant growth potential is in fields related to green technology and environmental protection, or "green" jobs. Similar to jobs in biotechnology, "green" industries have relatively small employment bases in relation to the overall economy. However, according to data provided by the Bureau of Labor Statistics, jobs for environmental engineering technicians, environmental scientists, and environmental science and protection technicians, are projected to increase 3.25 percent annually through 2016, a rate that could potentially accelerate due to increased public-sector support. These jobs also represent only a small fraction of an expanding series of industries that are becoming devoted to clean production, energy efficiency, and environmental protection.



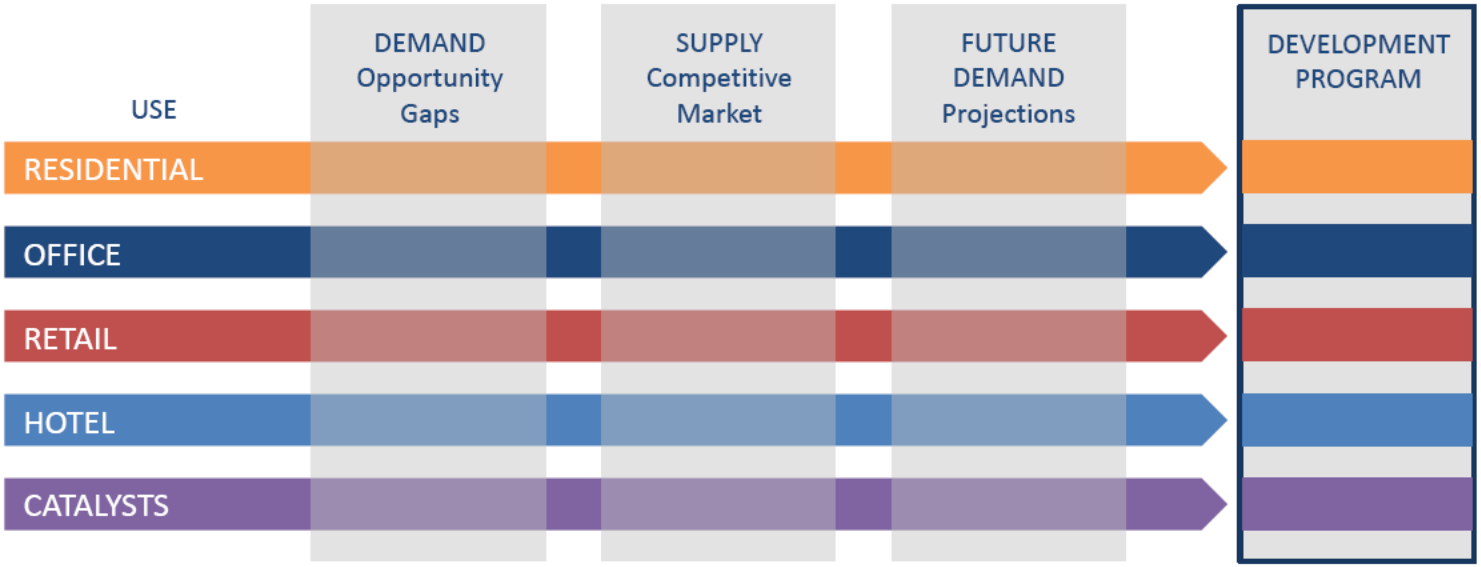


Market Analysis: Process Overview

Arriving at a feasible development program requires evaluating each land use through different "prisms": supply, demand, and future demand (growth).

To determine a marketable development program for a site, neighborhood, or district, we must first evaluate each potential land use separately. We evaluate each use through different "prisms": supply, demand, and future demand; this results in conclusions regarding the most realistic and market-feasible development program.

- **Demand:** We evaluate demand to determine if it is in equilibrium with supply. Often, supply is misaligned with demand. For instance, surveys may show that one-third of the housing market desires a new urban housing product, yet only five percent of supply is meeting this demand. This misalignment creates an "opportunity gap" whereby a developer can provide an undersupplied product, and a relatively large and unserved demand pool awaits.
- **Supply:** Analysis of existing supply indicates a great deal about what the market will bear in terms of rents, sales prices, and lease rates. It indicates preferences for specific products or locations. Analysis of the competitive market can reveal specific opportunities for developers. For example, demand analysis may reveal that a particular market area has an adequate amount of retail. However, the existing shopping centers and/or retailers may be dated or obsolete. An opportunity may exist for a new, more competitive shopping center with contemporary retail tenants to "beat out" the competition. This also holds for location: a superior site can provide competitive opportunity.
- **Future Demand:** An assessment of future growth can reveal opportunities for new development. Employment growth may necessitate more office development. Similarly, population growth requires more housing and more retail.



Market Analysis: Office Overview

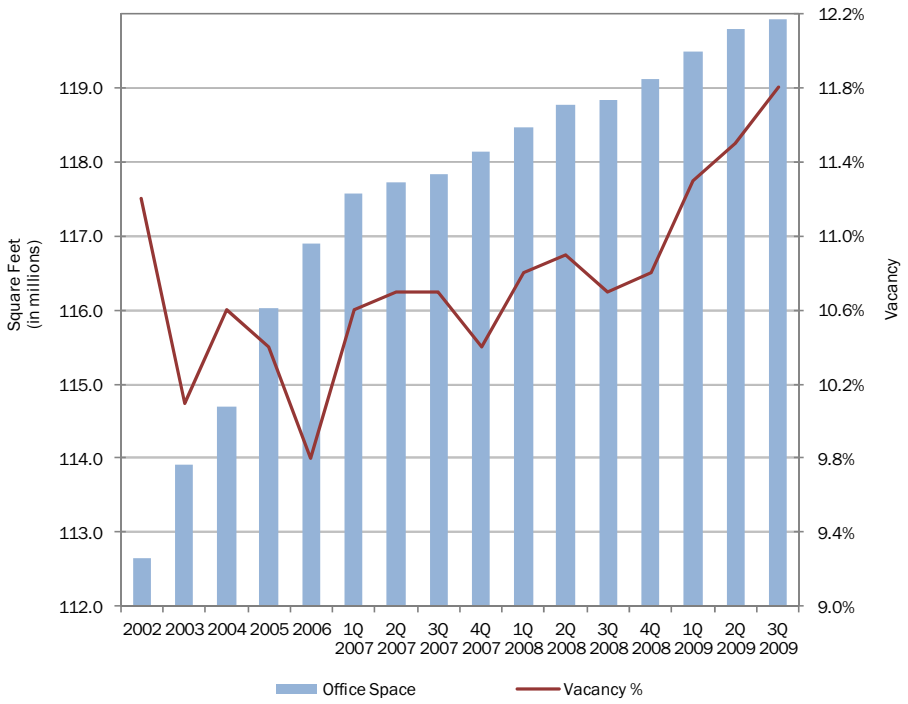
Because the redevelopment area is not considered a competitive location for office development, a focused transformative redevelopment of the area into a medical and life science center will be a necessary driver in creating an up-and-coming office location.

Office development can be a vital component of mixed-use districts. It has synergies with restaurant and hotel uses and – to a lesser extent – retail. New office space not only adds employment, but enhances the image and prestige of a district.

The St. Louis regional office market, with nearly 120 million square feet of space and a vacancy rate of 11.8 percent, remains somewhat soft, a trend that will likely continue as the economy continues to recover from the current recession. The regional office market experienced a construction boom that added about 12 million square feet of space in the six year period from 1998 to 2003, or about 2.0 million square feet per year. Since 2003, the market has added an annual average of roughly 740,000 square feet, allowing existing supply to be absorbed into the market.

The office market within the redevelopment District is not well established and contains very few properties with commercially marketed office space, all of which is classified as Class C and is currently vacant. Additionally, no new office buildings have been built for many years and the District is not well-positioned to attract a significant amount of office space, making it dependent upon a transformational redevelopment to become competitive in the local and regional office market. The redevelopment of the District into a medical district and life science research hub would be necessary to act as a catalyst for this transformation.

St. Louis Metro Office Trends
Source: CoStar, 2009 3Q



Office Space by Class
St. Louis Metro

Office Class	*Number of Buildings*	*Gross Leasable Area (s.f.)*	*Vacant Space (s.f.)*	*Vacancy Rate*	*YTD Absorption*	*YTD Deliveries*	*Under Construction (s.f.)*	*Quoted Rates*
A	231	34,156,223	4,291,322	12.6%	(171,218)	656,677	623,388	$22.10
B	1,768	53,812,742	6,870,343	12.8%	(125,884)	159,098	17,000	$17.04
C	2,630	31,961,781	3,037,012	9.5%	(236,306)	0	0	$14.71
Total:	*4,629*	*119,930,746*	*14,198,677*	*11.8%*	*(533,408)*	*815,775*	*640,388*	*$18.27*

CoStar, 2009 3Q

Office New Supply

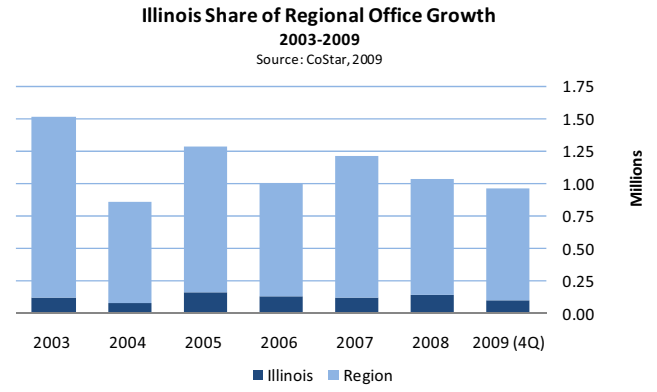
In an average year, the Illinois portion of the MSA receives approximately 9 to 14 percent of regional office growth. New speculative office development is rare and most new development has occurred in more suburban communities such as Belleville, O'Fallon, or Collinsville.

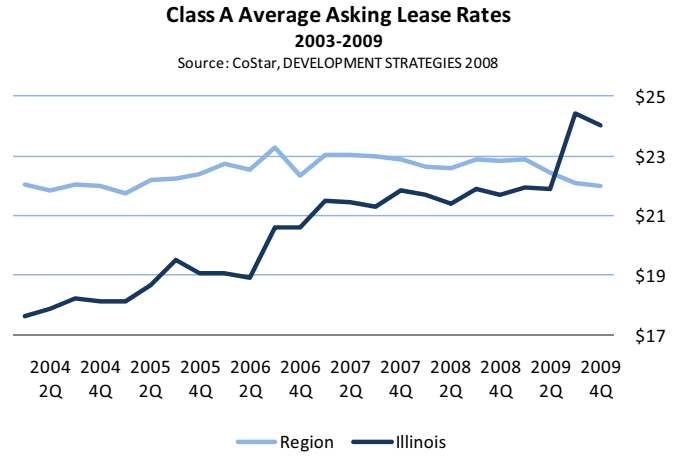
Illinois Share: The Illinois submarket's share of regional office development is fairly consistent from year to year, and is driven largely by single-tenant or owner occupied properties as opposed to speculative properties. The chart at top right shows that the region has added an annual average of slightly less than 1.2 million square of office space over the past seven years.

The Illinois side of the region has captured a limited, yet consistent, amount of office development during this time frame. The submarket's share of regional office development has generally ranged from about 9 to 14 percent. Much of this new development is located in smaller office buildings where companies tend to set up small satellite offices. Some of the largest projects include the development of two new buildings totaling 52,000 square feet at Eastport Plaza in Collinsville, the Green Mount Corporate Center in O'Fallon, and the third building at Mark Twain Plaza in Edwardsville.

Illinois Lease Rates: The middle chart reveals a positive trend for new properties in the Illinois submarket. Average asking lease rates for properties built after 2000 have increased nearly 30 percent over the past six years, while regional rates have increased at just two percent. This is significant because the gap between Missouri and Illinois lease rates closed, which encourages developers to build on the Illinois side of the region, instead of in Missouri.

Although the trend in lease rates bodes well for new properties, occupancy rates for new office space remains relatively low, which may reduce the rate of growth in the near future.





Office Space by Year Built

Illinois Submarket

Year Built	*Square Feet*	*Lease Rate*	*Occupancy*
2000-Present	1,480,000	$22	79%
1990-1999	850,000	$17	86%
1980-1989	710,000	$19	85%
1960-1979	820,000	$15	86%
1940-1959	200,000	$12	70%
pre-1940	410,000	$11	83%

Sources: CoStar, Development Strategies, 2009

Office Supply: Submarkets

Despite being in close proximity to the CBD and within a growing submarket, the District has never historically included a significant concentration of office development.

Submarket Comparison: Historically, the Illinois submarket has been characterized as a location for light office uses, such as satellite offices and other small-scale uses. The Central Business District, on the other hand, includes the largest concentration of office space in the region, Class A or otherwise. Class A lease rates and vacancy in the CBD are less-than-ideal ($19.56 16.5%), giving way to the premium St. Louis County market of Clayton ($26.6 and 9.7%). The map on the following page shows regional office clusters.

District Office: Though it is centrally located less than one mile from the CBD, new office space in the District is generally non-existent, while suburban areas of the Illinois submarket have grown at steady rates. Because of its central location within the region and the availability of cheap vacant land, the District could appeal to office users that may be interested in the CBD, but wish to remain in Illinois. Thus, the District may be able to capture a small portion of Illinois office demand that leaks out of the CBD and other Missouri submarkets.

Class A Office Space by Submarket
St. Louis

Submarket	*Number of Buildings*	*Gross Leasable Area (s.f.)*	*Vacancy Rate*	*Under Constructio n (s.f.)*	*Lease Rates*
Airport	2	584,000	0.7%	0	$23.6
Brentwood/Maplewood	1	84,000	10.7%	0	$29.4
Bridgeton/I=70	6	946,000	30.5%	0	$21.0
CBD	28	10,885,000	16.5%	0	$19.6
Chesterfield/Hwy-40	45	4,602,000	8.2%	0	$23.6
Clayton	33	5,630,000	9.7%	485,250	$26.6
Creve Coeur/Hwy-67	1	110,000	0.0%	0	-
Earth City/Riverport	15	2,216,000	16.1%	0	$20.0
Fenton	3	251,000	9.2%	0	$25.1
I-270/Maryland Heights	11	1,271,000	7.2%	0	$20.9
I-270/Olive Blvd	18	2,318,000	8.8%	0	$24.0
Illinois	**15**	**576,000**	**25.7%**	**0**	**$24.0**
Kirkwood/Frontenac	4	285,000	2.8%	0	$24.1
Manchester/I-270	11	1,269,000	6.4%	0	$23.8
North County	1	90,000	0.0%	0	-
South County	8	485,000	35.3%	0	$21.0
St. Charles County	27	2,746,000	11.0%	0	$21.9
St. Louis City	11	987,000	4.3%	0	$21.6
West County	0	0	0.0%	0	-
Totals	240	35,340,000	12.7%	485,250	$22.0

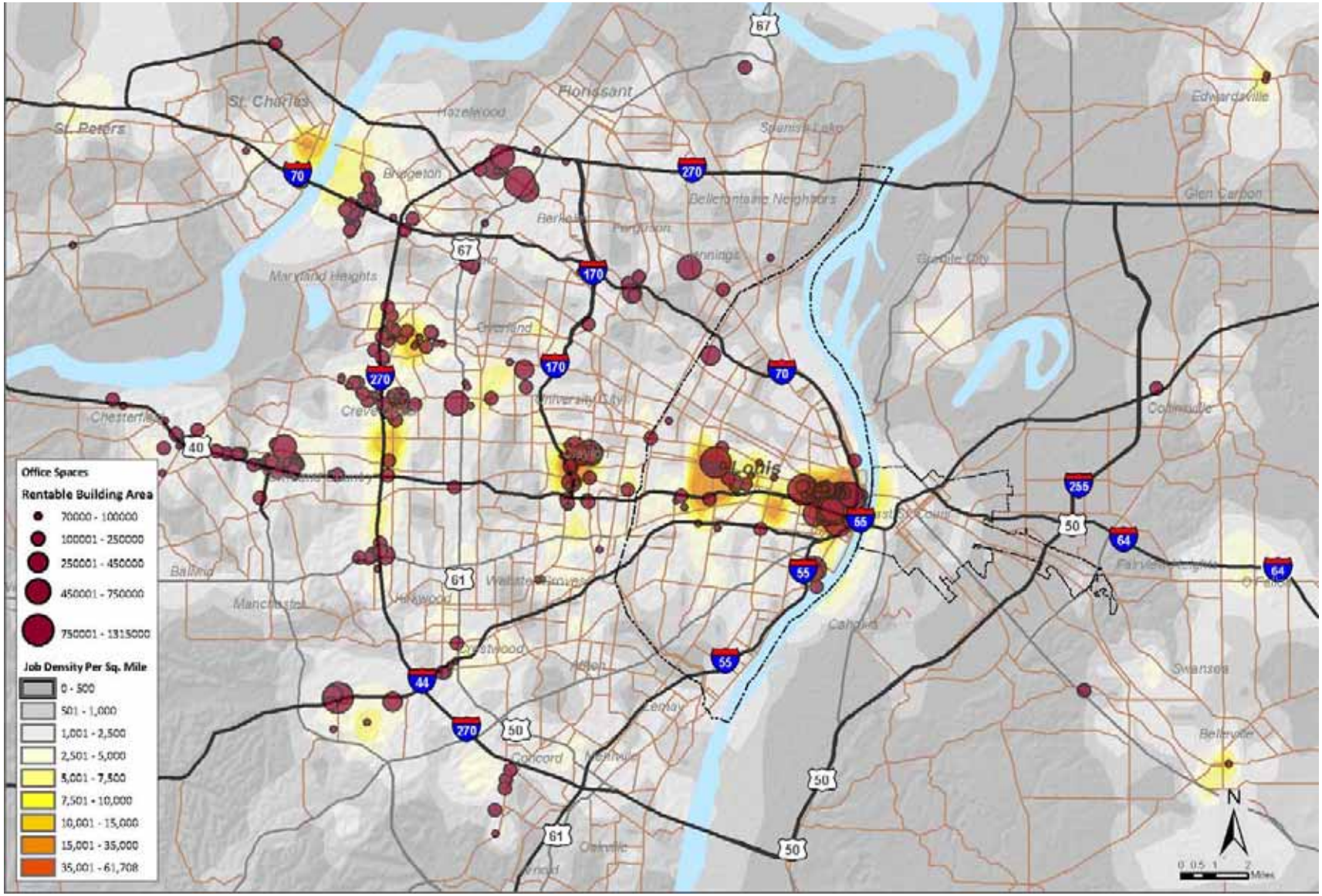
CoStar, 2009 4 Q

Office Space by Class
CBD & Illinois submarkets

Office Class	*Number of Buildings*	*Gross Leasable Area (s.f.)*	*Vacancy Rate*	*YTD Absorptio n*	*Under Constructi on (s.f.)*	*Quoted Rates*
CBD						
A	28	10,885,000	16.5%	(126,000)	0	$19.55
B	94	9,192,000	16.8%	(71,161)	0	$13.81
C	87	6,150,000	8.4%	(79,863)	0	$13.87
Total:	*209*	*26,227,000*	*14.7%*	*(329,774)*	*0*	*$16.80*
Illinois						
A	15	576,000	25.7%	30,860	-	$24.00
B	360	3,705,000	12.1%	22,256	0	$17.61
C	737	4,698,000	8.0%	47,165	0	$13.13
Total:	*1,112*	*8,979,000*	*11.4%*	*10,000*	*34,000*	*$17.23*

CoStar, 2009 4 Q

Office Clusters and Job Density



Office Supply: Competitive Environment

Lease rates for newly built office properties with high visibility generally range from $25 to $30 per square foot. Absorption of successful properties in premiere locations occurs at rates that can exceed 7,500 square feet per month, while properties in less marketable locations lease at rates under 2,000 square feet per month.

New office development is nonexistent in the District, as most new office development in Illinois occurs on the suburban periphery. However, even these suburban properties have relatively low absorption rates, as evidenced by the Mark Twain Plaza III building, a new, 40,000 square foot Class A property with average visibility. The property is currently about 77 percent leased, indicating an absorption rate of about 1,700 square feet per month. Similarly, Green Mount Corporate Center in O'Fallon, which was completed in 2008, contains about 48,000 square feet of space and is 24 percent leased; an absorption rate of 1,250 square feet per month.

The survey's most successful developments are located primarily in Missouri. This includes the Highlands development, a mixed-use development located on the former site of the St. Louis Arena near the intersection of Hampton Avenue and Interstate 64. The development has great visibility and currently includes three Class A office buildings containing 290,000 square feet of office space. Highlands Plaza #1, #3, #2 were finished in 2000, 2008, and in early 2009, respectively. Highlands Plaza #1 and #3 are currently 100 percent occupied with an average lease rate of $26.95 per square foot. As highlighted in the table at bottom left, Highlands Plaza #2 was 74 percent pre-leased with lease rates approaching $30 per square foot.

Another project nearing completion is the multi-phased CityPlace, which includes six Class A office buildings containing 1,006,000 square feet of office space, a rehabbed Class B office with 80,000 square feet of office space, and a mixed-use retail center with 12,000 square feet of second floor office space. Unlike the Highlands, CityPlace does not enjoy visibility from the nearby interstate, but it is located near one of the busiest interchanges in west St. Louis County, which provides easy access to the remainder of the St. Louis region. CityPlace office space is currently 94 percent occupied with an average lease rate of $25.28 per square foot.

These projects reveal that properties with good visibility and close proximity to major transportation nodes are likely to perform well. Although new office construction in the District is unlikely without a large-scale transitional development, its centralized location near various interstates and other highly traveled arterials gives it a potential advantage over other locations in Illinois. If anchor medical facilities can be linked to properties, absorption rates of 1,000 to 1,500 square feet per month may be achievable.

Selected Office Properties
St. Louis Region

Map Code	*Building Name*	*Address*	*Square Feet*	*Occ.*	*Lease* (per s.f.)*	*Delivery Date*	*Class*	*Stories*	*Absorp./ Month*
1	Highlands Plaza #2	5700 Oakland Ave.	64,000	74.0%	$29.75	2Q 2009	A	4	-
2	Solae Building	4300 Duncan Ave.	172,000	100.0%	-	1Q 2008	A	4	-
3	Central Park Sq. 1	16150 Main Circle Dr.	100,600	95.2%	$30.00	2Q 2008	A	5	10,500
4	CityPlace 6	6 Cityplace Dr.	210,000	78.9%	$27.50	1Q 2007	A	10	7,500
5	Green Mount C.C.	475 Regency Park Dr.	48,475	24.2%	$25.75	3Q 2008	B+	3	1,250
6	Mark Twain Plaza 3	105 W. Vandalia St.	40,700	76.6%	$26.00	4Q 2007	A-	4	1,700
7	The Meridian	8300 Eager Rd.	175,000	42.9%	$29.50	4Q 2008	A	7	9,400
8	Cupples Bldg. 1	1000 Clark Ave.	120,000	97.5%	$14.00	3Q 2007	B+	6	-

CoStar, 2009





Office Demand

Future office demand is estimated by analyzing employment growth by industry, and determining how much—if any—office space each worker will require.

Office demand can be calculated by using employment projections to determine future space needs. First, using combined employment projections provided by the Missouri Economic Research and Information Center (MERIC) and the Illinois Department of Economic Security (IDES), we determine the annual number of jobs that will be added by occupation. Next, we apply a percentage of office uses by occupation (the number is high for management occupations, lower for sales and related occupations). We then multiply the number of employees by occupation by the average amount of office space that their field requires (data is provided by CoStar). In doing so, we arrive at total amount of annual office demand, in square feet. Lastly, we add an additional 10 percent of vacant space.

As indicated in the bottom table, we project that the addition of 1,185 office jobs per year will drive annual demand for office space to 360,000 square feet, or 7.2 million square feet over 20 years. Much of this space, or approximately 4.4 million square feet of space will be medical-related, with demand for just 2.8 million square feet for general office space. These numbers are for the St. Louis Metropolitan Region.

Based on new supply data, we estimate that the Illinois submarket will capture approximately 10 to 15 percent of all new office development, which amounts to roughly 720,000 to 1.08 million square feet of office space over 20 years. If the Medical District captured five percent of annual regional demand, this would amount in roughly 360,000 square feet of office space over 20 years, 220,000 square feet of which would be medical-related.

Projected Annual Office Demand Matrix
St. Louis Region

Occupation	Office Category	Employment Estimated 2006	Employment Projected 2016	Numeric Change	Average Annual Change	% Office Users*	Number of Office Users	SF/ Employee**	Annual Office Space	10% Vacancy Factor***
Management Occupations	Conventional	57,308	56,827	-481	-50	100%	-50	350	-18,000	-19,800
Business and Financial Operations Occupations	Conventional	59,665	61,970	2,305	230	100%	230	300	69,000	75,900
Computer and Mathematical Occupations	Conventional	34,509	37,102	2,593	260	90%	234	275	64,000	70,400
Architecture and Engineering Occupations	Conventional	18,423	18,658	235	20	100%	20	315	6,000	6,600
Life, Physical, and Social Science Occupations	Conventional	10,896	11,460	564	60	80%	48	315	15,000	16,500
Community and Social Services Occupations	Civic/Social	16,271	17,967	1,696	170	60%	102	275	28,000	30,800
Legal Occupations	Conventional	11,373	10,990	-383	-40	100%	-40	430	-17,000	-18,700
Education, Training, and Library Occupations	Civic/Social	86,360	93,888	7,528	750	10%	75	275	21,000	23,100
Arts, Design, Entertainment, Sports, and Media Occ	Conventional	28,266	30,420	2,154	220	50%	110	275	30,000	33,000
Healthcare Practitioners and Technical Occupations	Medical	76,953	81,447	4,494	450	100%	450	265	119,000	130,900
Healthcare Support Occupations	Medical	35,181	38,371	3,190	320	100%	320	265	85,000	93,500
Protective Service Occupations	Civic/Social	26,180	27,688	1,508	150	20%	30	275	8,000	8,800
Food Preparation and Serving Related Occupations	-	116,392	124,513	8,121	810	0%	0	275	0	0
Building & Grounds Cleaning & Maintenance Occup.	-	46,273	48,641	2,368	240	0%	0	275	0	0
Personal Care and Service Occupations	Conventional	42,281	45,126	2,845	280	5%	14	300	4,000	4,400
Sales and Related Occupations	Conventional	145,740	147,344	1,604	160	20%	32	275	9,000	9,900
Office and Administrative Support Occupations	Conventional	233,245	229,344	-3,901	-390	100%	-390	225	-88,000	-96,800
Farming, Fishing, and Forestry Occupations	-	2,887	2,894	7	0	0%	0	250	0	0
Construction and Extraction Occupations	-	74,485	77,895	3,410	340	0%	0	250	0	0
Installation, Maintenance, and Repair Occupations	-	56,425	57,500	1,075	110	0%	0	250	0	0
Production Occupations	-	99,020	91,573	-7,447	-740	0%	0	250	0	0
Transportation and Material Moving Occupations	-	91,974	90,693	-1,281	-130	0%	0	250	0	0
Totals:	-	1,372,000	1,404,000	32,000	3,220	-	1,185	-	340,000	370,000

Projections provided by Missouri Economic Research and Information Center (MERIC)
*Factor applied by Development Strategies **Provided by CoStar Tenants, 2008 ***Assumes add'l 10% office development

Potential Office Demand, in Square Feet
St. Louis MSA

	Office User Type			
	Conventional	Civic	Medical	Total
Annual Office Employment Growth	208	207	770	1,185
Annual Regional Demand *(in thousands)*	80	60	220	360
5 Years	400	300	1,100	1,800
10 Years	800	600	2,200	3,600
20 Years	1,600	1,200	4,400	7,200
20 Year Illinois Capture *(in thousands)*				
Conservative (@ 10%)	160	120	440	720
Moderate (@ 12.5%)	200	150	550	900
Aggressive (@ 15%)	240	180	660	1,080
20 Year District Capture				
Conservative (@ 2.5%)	40,000	30,000	110,000	180,000
Moderate (@ 5%)	80,000	60,000	220,000	360,000
Aggressive (@ 7.5%)	120,000	90,000	330,000	540,000

Employment Projections provided by Missouri Economic Research and Information Center (MERIC) and the Illinois Department of Employment Security (IDES)
Office usership provided by CoStar, 2009; Data analysis and forcast by DEVELOPMENT STRATEGIES, 2008

Medical Office Demand

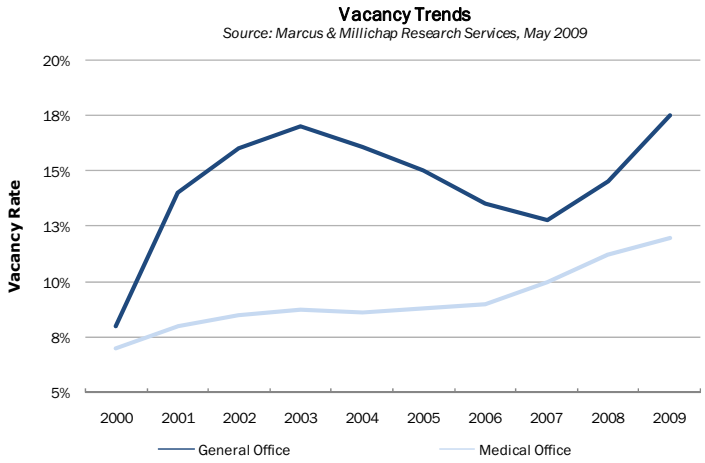
Future demand for medical office space is estimated by analyzing employment growth by various health care occupations, and determining how much—if any—office space each worker will require.

Medical office properties have outperformed general office space, a strong indicator that the District's positioning as a "medical district" should make it more competitive. According to Marcus & Millichap Research Services, the national medical office vacancy rate was 3.6 percent lower than general office in 2008, which is generally consistent with vacancy rates over the past ten years.

Medical office demand can be calculated by using the same employment projections provided by MERIC and IDES, which indicate the region will add 890 health care jobs per year. This will drive annual demand for slightly more than 220,000 square feet of medical-related office space, or roughly 4.5 million square feet over 20 years. These numbers are for the St. Louis Metropolitan Region.

Based on new supply data, we estimate that the Illinois submarket will capture approximately 10 to 15 percent of all new office development, which amounts to nearly 450,000 to 680,000 square feet of medical office space over 20 years. If the Medical District could capture 2.5 to 7.5 percent of annual regional demand, this would amount in roughly 110,000 to 340,000 square feet of healthcare-related space over this time period.

Of the six occupation types, health diagnosing and technicians, as well as nursing, psychiatric, and home health aides are projected to provide the vast majority of demand for new space. By attracting these types of occupations, the District could effectively capture a larger share of regional growth.



Projected Annual Health Care Demand Matrix
St. Louis Region

Occupation	Office Category	Employment Estimated 2006	Employment Projected 2016	Numeric Change	Average Annual Change	% Office Users*	Number of Office Users	SF/ Employee **	Annual Office Space	10% Vacancy Factor***
Counselors, Social Workers, and Community Service Occupations	Civic/Social	15,019	16,519	1,500	150	60%	90	275	25,000	27,500
Health Diagnosing and Technologists	Medical	96,677	100,181	3,504	350	100%	350	265	93,000	102,300
Health Technologist and Technicians	Medical	29,774	30,492	718	70	100%	70	265	19,000	20,900
Other Health Practitioners and Tech Occupations	Medical	1,282	1,314	32	0	100%	0	265	0	0
Nursing, Psychiatric, and Home Health Aides	Medical	22,268	24,530	2,262	230	100%	230	265	61,000	67,100
Occupational and Psychical Therapist Assistants and Aides	Medical	1,486	1,694	208	20	100%	20	265	5,000	5,500
Other Healthcare Support Occupations	Medical	11,427	12,147	720	70	100%	70	265	19,000	20,900
Totals:	-	177,933	186,877	9,000	890	-	830	-	220,000	240,000

Projections provided by Missouri Economic Research and Information Center (MERIC)
*Factor applied by Development Strategies **Provided by CoStar Tenants, 2008 ***Assumes add'l 10% office development

Potential Medical Office Demand, in Square Feet
St. Louis MSA

	Medical Office User Type						
	Couns., Soc., & Comm. Service	Health Diagnosing & Tech.	Health Tech-nologists	Nursing, Psych., & Home Health	Occ. & Phys. Therapist Ass. & Aides	Other Healthcare Support	Total
Annual Employment Growth	90	350	70	230	20	70	830
Annual Regional Demand *(in thousands)*	28	102	21	67	6	6	229
5 Years	140	510	100	340	30	30	1,150
10 Years	280	1,000	210	670	60	60	2,280
20 Years	550	2,000	420	1,300	110	110	4,490
20 Year Illinois Capture							
Conservative (@ 10%)	55,000	200,000	42,000	130,000	11,000	11,000	449,000
Moderate (@ 12.5%)	69,000	250,000	53,000	163,000	14,000	14,000	563,000
Aggressive (@ 15%)	83,000	300,000	63,000	195,000	17,000	17,000	675,000
20 Year District Capture							
Conservative (@ 2.5%)	14,000	50,000	11,000	33,000	3,000	3,000	114,000
Moderate (@ 5%)	28,000	100,000	21,000	65,000	6,000	6,000	226,000
Aggressive (@ 7.5%)	41,000	150,000	32,000	98,000	8,000	8,000	337,000

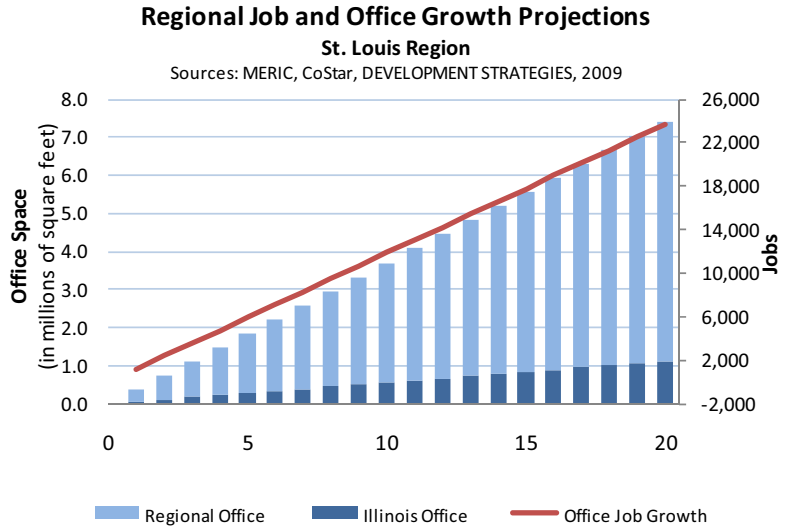
Employment Projections provided by Missouri Economic Research and Information Center (MERIC) and the Illinois Department of Employment Security (IDES)
Office usership provided by CoStar, 2009; Data analysis and forcast by DEVELOPMENT STRATEGIES, 2008

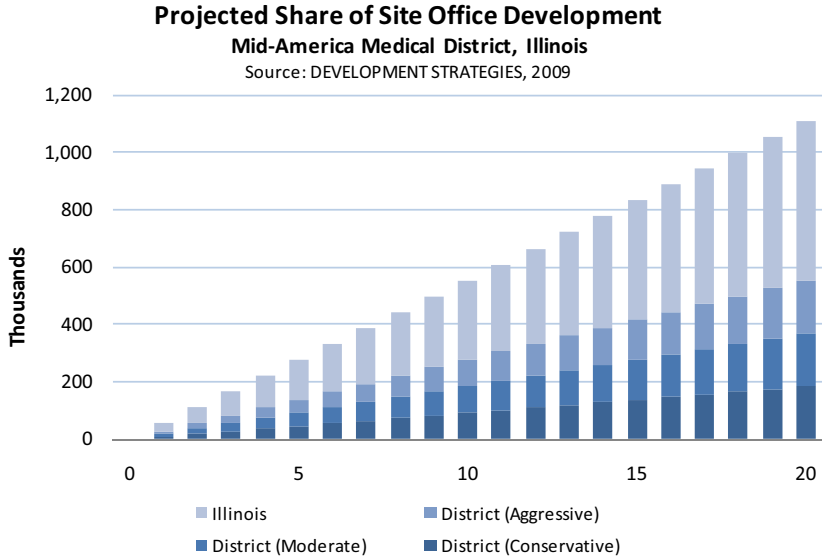
Office Demand

Projections indicate that the St. Louis region could add roughly 24,000 jobs over the next 20 years. This translates into demand for an additional 7.4 million square feet of office space. The District could capture 5.0 percent of this, or 270,000 square feet.

Regional Employment Growth: The annual addition of several hundred-thousand square feet of office space each year can total a substantial number over time. Over a 20 year period, the St. Louis region is projected to add roughly 24,000 office jobs. This translates into nearly 6.3 million square feet of office space for the region. If current trends continue and Illinois captures 15 percent of this growth, it will add more than 1.1 million square feet of space over the 20 year time period (see chart at upper right).

District Projection: The chart at bottom right shows the projected impact of three scenarios at the site. The first, assuming a conservative 2.5 percent regional capture, results in nearly roughly 180,000 square feet in 20 years. The second, moderate assumption of a 5.0 percent capture rate results in about 360,000 square feet for the time period. Aggressively, if the District could capture 7.5 percent of regional growth, or half of all Illinois growth, it would amount to roughly 540,000 square feet of office space in 20 years.





Market Analysis: Residential

Housing Overview

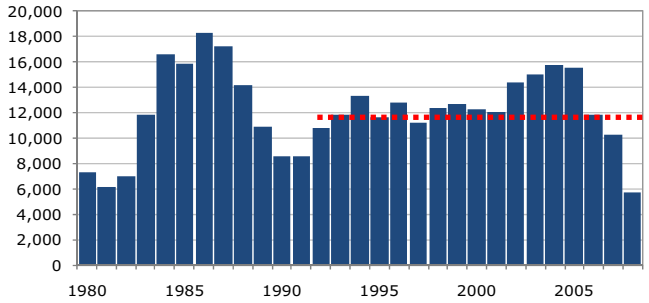
The regional housing market is greatly affected by the national recession, which has in turn affected housing development in the PMA. When the market recovers, we estimate the region can sustain roughly 10,000 new homes per year, of which the site could capture one percent.

Regional Housing: End-of-the-year housing permit data for 2008 confirmed the dramatic downturn in the housing market. After four booming years in which the regional housing industry built at least 14,000 housing units per year, the region logged slightly more than 10,000 permits in 2007 – a return to early 1990s levels, and a 33 percent drop from 2005. The decline was even more substantial in 2008, when just 5,700 permits were issued—the lowest figure witnessed in the St. Louis region over the past 30 years. It represented a 45 percent drop from 2007, and a 64 percent decrease from the region's peak year in 2004.

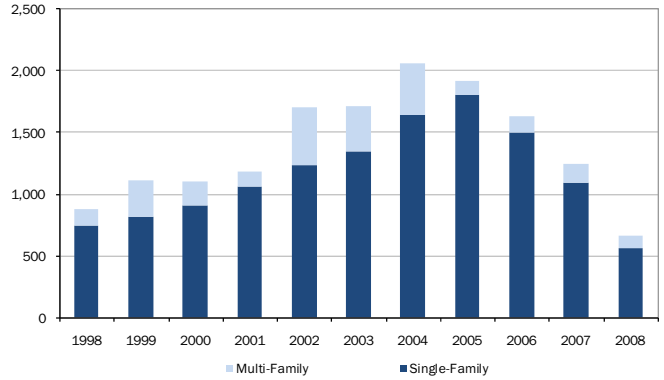
Home prices also did not fare well. The National Association of Realtors reports that median home prices in the St. Louis region decreased 16.9 percent in the first quarter of 2009, when compared with the first quarter of 2008. This is worse than the national median for this time period, which decreased 8.8 percent. However, recent reports indicate that the market's decline appears to be bottoming out, as sales of existing homes in the region recently reached their highest levels in eight months, price declines in key submarkets have begun to level out, and the number of foreclosures in the area is on the decline.

Housing in the PMA: Given the spiral effect of declining real estate activity, it is difficult—if not impossible—to forecast housing development over the next several years. However, historical permit data reveals some clues as to what the housing outlook might be once the nation recovers from the economic recession. The chart at top right shows historic permit data for the St. Louis region since 1980. A cycling trend in the number of permits can be seen, with the economic booms and busts of the mid-to-late 1980's and 2000's. It is reasonable to assume that the number of permits, once the economy recovers, will range between 10,000 and 12,000 on an annual basis for the region. However, it will likely take several years before market is able to achieve this type of figure again. As the chart in the center illustrates, a fairly consistent number of units will be constructed in St. Clair County, although very little of this will likely occur in East St. Louis without a major market shift.

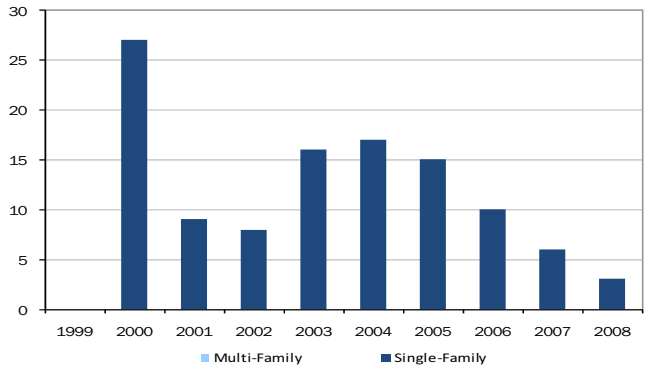
St. Louis Region Housing Permits
1980-2008
Source: U.S. Dept. of Housing and Urban Development, 2009



St. Clair County Building Permits
1998-2008
Source: U.S. Dept. of Housing and Urban Development, 2009



East St. Louis Building Permits
1999-2008
Source: U.S. Dept. of Housing and Urban Development, 2009



For-Sale Supply

Per-square-foot, midscale homes will sell for roughly $120 to $140. More affordable homes will sell for $100 to $120 psf. Condominium development is currently not a viable option.

A number of infill developments have occurred in the for-sale market in St. Louis City near the PMA in the past decade. Though none of these projects are perfectly comparable to what can be developed in the District, they do lend insight into achievable sale prices for products in a range of market positions.

Barring an dramatic paradigm shift within the next few years, we do not currently consider the District an appropriate location for luxury and upscale product and have omitted various upscale properties that have been developed in St. Louis, particularly upscale condominium developments.

Although all sectors of the housing market have struggled recently, midscale product has performed better than higher-priced housing. This includes new single-family and townhome developments such as Botanical Heights and Gaslight Square, which are smaller in scale, but are representative of fairly large-scale urban redevelopments. We estimate these types of products can achieve pricing of $130 to $150 per square foot within the District.

Other lower end products, such as West End Estates, also provide valid indicators of the type of product that may be suitable for the District, with price points that range from $100 to $120 per-square-foot.


Gaslight Square Townhomes


Lafayette Walk Townhomes


Botanical Heights

Mid-American Medical District

Summary of Selected For Sale Housing Properties

			Two-Bedroom			Three-Bedroom		
	% Sold	# of Units	Avg. Price	Size (SF)	Price PSF	Avg. Price	Size (SF)	Price PSF
Single-Family and Townhomes			**$270,000**	**1,700**	**$159**	**$289,000**	**2,060**	**$140**
1 West End Estates	94%	33	-	-	-	$220,000	2,000	$110
2 Botanical Heights	100%	122	-	-	-	$286,204	2,233	$128
3 Lafayette Walk	86%	123	$270,000	1,700	$159	$330,000	2,250	$147
4 Gas Light Square	98%	172	-	-	-	$274,380	1,820	$151

Averages are rounded

Case Study: New Town, Missouri

For-Sale Housing Product Types

New Town offers a variety of for-sale housing products at a range of price points that are similar to the price points in highest demand within the subject's PMA.

Row Houses

Lot: -
Home: 1,225 s.f.
Price: $195K-$220K ($160+ psf)

Row Houses

Lot: -
Home: 1,025 s.f.
Price: $175K-$200K ($170+ psf)

Traditional Neighborhood Coll.

Lot: 3,000-3,500 s.f.
Home: 1,550 s.f.
Price: $185K-$225K ($120+ psf)

Traditional Neighborhood Coll.

Lot: 3,000-3,500 s.f.
Home: 1,270 s.f.
Price: $170K-$210K ($135+ psf)

Cottage Collection

Lot: 5,000-5,500 s.f.
Home: 1,760 s.f.
Price: $245K-$285K ($140+ psf)

Cottage Collection

Lot: 4,500-5,500 s.f.
Home: 1,520 s.f.
Price: $225K-$265K ($150+ psf)

Cottage Collection

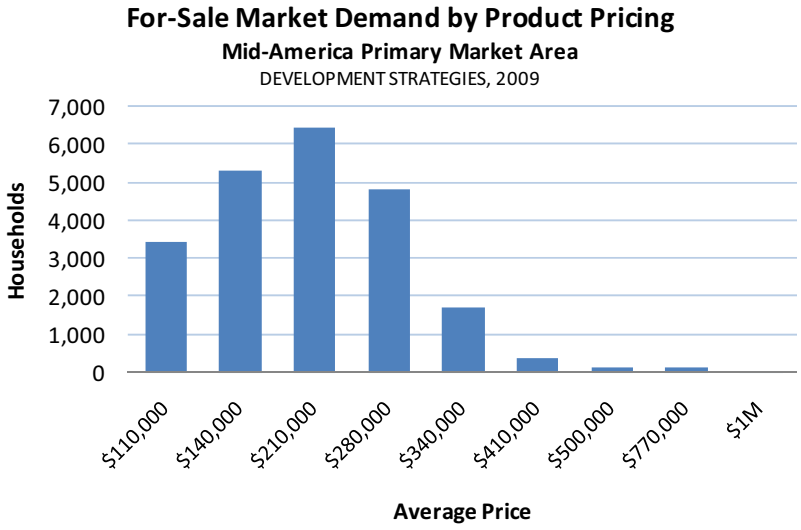
Lot: 4,500-5,000 s.f.
Home: 1,225 s.f.
Price: $205K-$245K ($165+ psf)

For-Sale Demand

Housing at three price points are most in demand in the PMA: $140,000, $210,000, and $280,000.

Analysis of incomes and mortgage affordability helps determine the level of market support for housing at different price points. The table below indicates households in the Residential PMA by income, and their corresponding mortgage affordability.

As the table indicates, there is considerable market depth for housing at some of the lower price points, particularly in the $120,000 to $300,000 range (including maintenance, taxes, utilities…). This is a broad range that has almost equal market support, and implies that a moderate range of products (from small to mid-size homes) can be offered at the site. Perhaps multi-family homes could be offered at the lower price range, and some attached townhomes at the higher end. There is very little depth for the premium market – homes priced above $340,000.

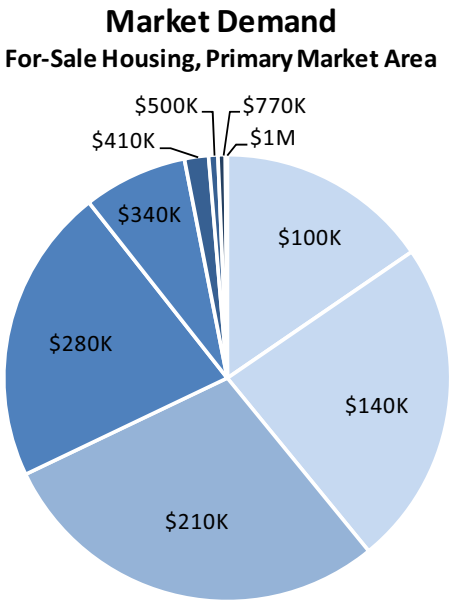


Homeownership Market Demand
Primary Market Area

Income Range	Households	Maximum Payment [1]	Monthly Mortgage Affordability	Mortgage Affordability [2]	% Homeowner [3]	Homeowner Market
< $25,000	15,900	40%	- -	- -	-	-
$25,000 - $34,999	5,800	35%	$700 - $1,000	$90,000 - $125,000	60%	3,460
$35,000 - $49,999	7,600	30%	$900 - $1,200	$120,000 - $165,000	70%	5,300
$50,000 - $74,999	7,600	30%	$1,300 - $1,900	$165,000 - $250,000	85%	6,460
$75,000 - $99,999	5,300	30%	$1,900 - $2,250	$250,000 - $300,000	90%	4,810
$100,000 - $149,999	1,800	25%	$2,250 - $2,800	$300,000 - $370,000	95%	1,690
$150,000 - $199,999	410	20%	$2,800 - $3,300	$370,000 - $440,000	95%	390
$200,000 - $249,000	160	20%	$3,300 - $4,200	$440,000 - $550,000	95%	150
$250,000 - $499,999	130	18%	$4,200 - $7,500	$550,000 - $990,000	95%	120
> $500,000	30	15%	$7,500+	$1,000,000+	95%	30

[1]American Community Survey 2007 - St. Louis MSA; [2]6%interest rate, 30 year term, 25%condo fee, taxes, insurance, utilities, 5%down; [3]American Community Survey 2007 - St. Louis MSA; Income and Household data provided by ESRI 2009

DEVELOPMENT STRATEGIES, 2009



Supply: Rental Overview

Short-term indicators point to better performance for central city rental properties relative to those in the region at large—a rare bright spot in the economic recession.

Short-term multifamily trends are not especially useful in predicting long-term potential for rental product at a project such as the Medical District, which has at least ten-year horizon. What is more important are long-term supply and market support (demand). Nevertheless, we provide a brief overview of the current state of the market.

The bottom line is that while the St. Louis rental market—like the national rental market and all sectors of real estate, in general—is having a bad year, it is likely to be a safer bet than other sectors, such as for-sale housing, office, retail, and hotel.

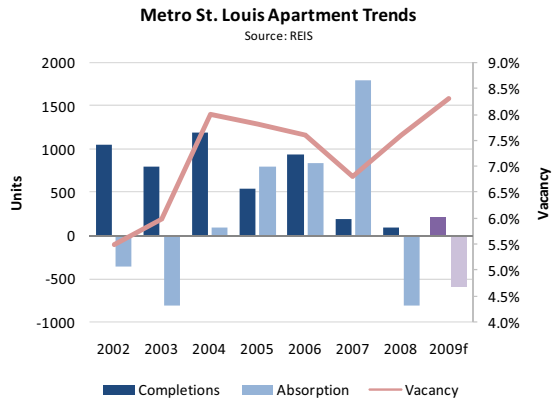
After 2007, a year in which absorption and vacancy made strong, positive gains (likely a result of the bursting for-sale market), 2008 brought on negative absorption, and an increase in vacancy of 80 basis points, to 7.6 percent in the fourth quarter of 2008. This is undoubtedly a result of the bad economy. REIS projects further negative absorption in 2009, and an overall vacancy rate of 8.3 percent.

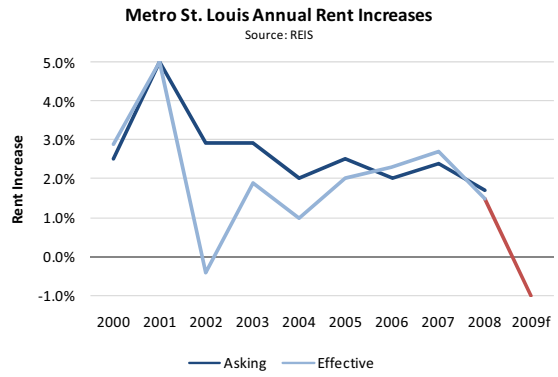
Effective rents, which had also made positive strides in recent years, increased only modestly in 2008, at a rate of 1.5 percent. REIS projects negative rent growth in 2009, at a rate of -1.0 percent.

Initially, the decline in the for-sale market appeared to be to the advantage of the rental market, as the homeownership rate declined and more people were inclined to rent. Now, however, some segments are unable to rent at all. For example, more college students, recent graduates, and the increasing numbers of unemployed are likely to live with parents or other family members. Nationally, net absorption for the fourth quarter of 2008 is estimated at -13,000 (REIS).

Other negative trends for multifamily rentals include: a "shadow" market of condominiums, which have been converted to apartments; single family homes being rented out; and the decline in home prices and interest rates, which makes homeownership competitive with rental options.

REIS indicates that four of the five largest apartment projects are located in the urban, St. Louis North submarket, illustrating that urban core areas are still considered favorable by developers.





Competitive Supply: Rental

Per-square-foot, upper midscale product will rent for $1.05 to $1.30, while midscale product will rent for $0.80 to $0.90.

Relative to the for-sale market, a much broader range of new rental product has been delivered to the area over the past decade. As a result, comparable rental properties are far easier to identify using conventional market analysis methodology.

The best comparables for upper midscale properties are the Soulard Market Lofts and 6 North. These properties indicate achievable rents of roughly $1.05 to $1.30 per square foot for one-bedroom units, and $1.00 to $1.20 for two-bedroom units. While there are some upscale products in St. Louis that achieve rates ranging from $1.40 to $1.65 per square foot, the potential market for these types of products is limited in St. Louis and the District is not a likely candidate for capturing this demand.

Quality midscale properties are somewhat scarce in urban areas of St. Louis because most in this market position are older and fairly dated. Courtyards at Cityside, Cambridge Heights, and Parsons Place each have inferior locations similar to what the District's will be. Lofts at Lafayette Square is a "'tweener"—it is better than midscale, but not fully upper midscale.

Overall, we estimate midscale rents can range from $1.00 (psf) for small one-bedroom units to $0.85 (psf) for two-bedroom units.


Lofts at Lafayette Square


Soulard Market Lofts


Courtyards at Cityside


Bristol Place

Mid-America Medical District

Summary of Selected Competitive Rental Properties

			One-Bedroom			Two-Bedroom			Three-Bedroom		
	Occ. Rate	# of Units	Avg. Rent	Size (SF)	Rent PSF	Avg. Rent	Size (SF)	Rent PSF	Avg. Rent	Size (SF)	Rent PSF
Upper Midscale											
1 Soulard Market Lofts	97%	132	$1,020	805	$1.27	$1,440	1,190	$1.21	-	-	-
2 Lofts at Lafayete Square	94%	109	$1,013	968	$1.05	$1,621	1,583	$1.02	-	-	-
3 6 North	100%	41	$843	645	$1.31	$1,113	997	$1.12	-	-	-
Midscale											
4 Cambridge Heights	85%	27	$596	691	$0.86	$730	964	$0.76	$850	1,300	$0.65
5 Courtyards at Cityside	94%	332	$571	674	$0.85	$723	859	$0.84	-	-	-
6 Parsons Place	99%	276	$595	722	$0.82	$732	925	$0.79	$999	1,205	$0.83
Below Midscale											
7 Bristol Place	90%	100	-	-	-	$685	952	$0.72	$785	1,195	$0.66
8 West End Apartments	97%	100	$450	620	$0.73	$520	800	$0.65	-	-	-
Total/Average	**96%**	**1,117**	**$683**	**729**	**$0.94**	**$890**	**996**	**$0.89**	**$936**	**1,209**	**$0.77**

DEVELOPMENT STRATEGIES, 2008

Rental Demand

Demand for rental housing is strongest among low-income households earning less than $15,000 annually, and among young professionals who earn between $35,000 and $50,000 annually.

Analysis of incomes and rental affordability helps determine the level of market support for apartments at different price points. The table below indicates households in the PMA by income, and their corresponding rent affordability.

The table and pie chart show that the greatest demand for market-rate apartments is for midscale product; specifically, units with price points of $810 and $885 per month. Smaller amounts of demand exist for units at $1,175 and $1,460 per month, while very little demand exists for units at rents that are above $1,700 per month.

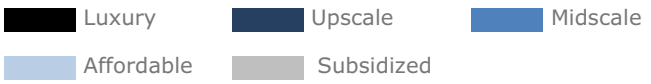
As the charts show, demand is significant for affordable and subsidized product in the PMA. Affordable housing can play a key role in building enough units to reach a critical density required to support area retail.

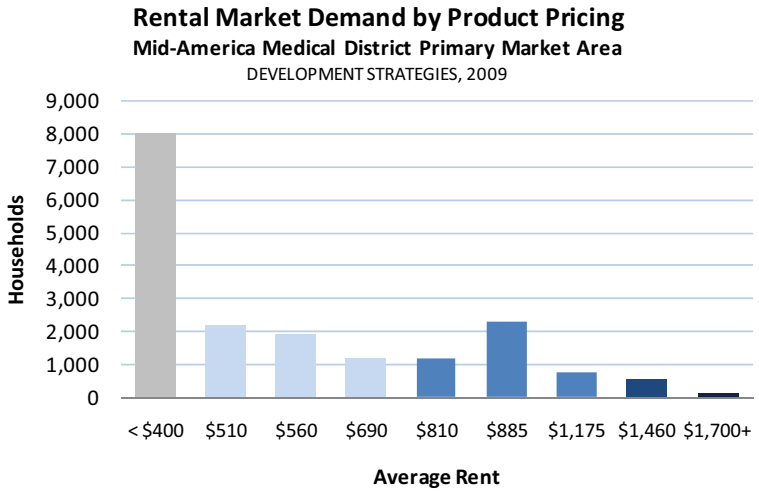
Renter Market Demand
Primary Market Area

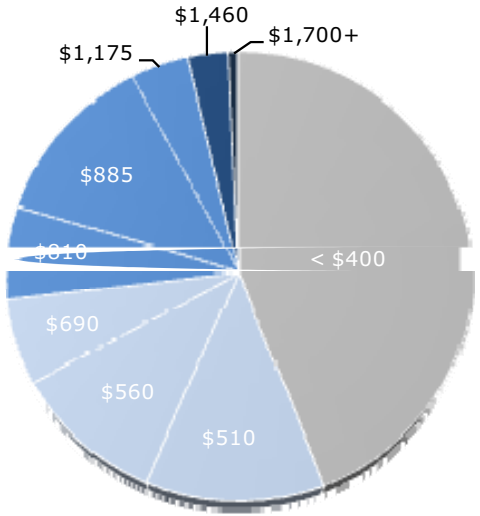
Income Range	Households	Maximum Payment [1]	Monthly Rent Affordability	% Homeowner [2]	Renter Market
< $15,000	10,000	40%	< $400	20%	8,000
$15,000 - $19,999	2,900	35%	$440 - $580	25%	2,175
$20,000 - $24,999	2,900	30%	$500 - $620	35%	1,885
$25,000 - $29,999	2,900	30%	$630 - $750	60%	1,160
$30,000 - $34,999	2,900	30%	$750 - $870	60%	1,160
$35,000 - $49,999	7,600	25%	$730 - $1,040	70%	2,280
$50,000 - $74,999	7,600	23%	$940 - $1,410	90%	760
$75,000 - $99,999	5,300	20%	$1,250 - $1,670	90%	530
> $100,000	2,500	15%	$1,700+	95%	125

[1]American Community Survey 2007 - St. Louis MSA; [2]American Community Survey 2007 - St. Louis MSA; Income and Household data provided by ESRI 2009
DEVELOPMENT STRATEGIES, 2009

Legend: Market Position







Workforce Rental Supply

Per-square-foot, two-bedroom, 60 percent AMI units will generally rent for $0.70 to $0.85, while 50 percent AMI units of similar size will rent for $0.60 to $0.70.

East St. Louis and St. Louis City to the west have an abundant supply of affordable housing, yet demand continues to warrant more. Parsons Place and Cambridge Heights in St. Louis are excellent affordable projects that are near the District. Its rents may be most telling as to what is achievable at the site in the affordable market today.

6 North, which is located in the Central West End, is in what is currently a superior location. It achieves the maximum allowable rents under the LIHTC program, which still offer a substantial discount to market rents at that location. This may be a good model for high quality workforce construction in the District, once the location has been enhanced (with public space, etc.) in a manner that generates value.


Parson's Place


Cambridge Heights


Renaissance Place


6 North

Mid-American Medical District
Summary of Selected Affordable Rental Properties

			One-Bedroom			Two-Bedroom			Three-Bedroom		
	Occ. Rate	# of Units	Avg. Rent	Size (SF)	Rent PSF	Avg. Rent	Size (SF)	Rent PSF	Avg. Rent	Size (SF)	Rent PSF
50% AMI Units											
1 Parsons Place	100%	276	$487	722	$0.67	$575	853	$0.67	-	-	-
2 Cambridge Heights	100%	48	$525	691	$0.76	$675	964	$0.70	$765	1,300	$0.59
3 Renaissance Place	100%	123	$481	662	$0.73	$603	900	$0.67	$775	1,265	$0.61
4 6 North	100%	5	$488	645	$0.76	$632	946	$0.67	-	-	-
60% AMI Units											
1 Parsons Place	100%	276	$556	722	$0.77	$685	925	$0.74	$823	1,153	$0.71
2 Cambridge Heights	100%	48	$525	691	$0.76	$675	964	$0.70	$765	1,300	$0.59
3 Renaissance Place	100%	123	$625	662	$0.94	$716	900	$0.80	$845	1,203	$0.70
4 6 North	95%	35	$674	645	$1.04	$809	946	$0.86	-	-	-
Total/Average - 50% AMI	**100%**	**452**	**$489**	**702**	**$0.70**	**$594**	**879**	**$0.68**	**$772**	**1,275**	**$0.61**
Total/Average - 60% AMI	**100%**	**482**	**$579**	**698**	**$0.83**	**$701**	**924**	**$0.76**	**$823**	**1,182**	**$0.70**

DEVELOPMENT STRATEGIES, 2008

Workforce Housing Demand

Using standard market methodology, introducing up to 500 workforce housing units is very reasonable over a protracted period of 10 to 15 years.

Unlike the demand analysis for market-rate housing in the District, which uses geodemographic segmentation (i.e. Tapestry) data to identify a target market of prospective residents from throughout the metro region, our analysis for workforce housing follows a more conventional market methodology. That is, we determine a primary market area from which 75 of demand will be generated, and determine how many residents, based on income, household size, and tenure, would qualify for workforce housing at the site.

Given the large scale of the project, we drew a large market area, which consists of all areas below the bluffs to the river. The population is roughly 117,000, with about 45,000 occupied households, and a median household income of $36,300.

To determine market demand, we created a potential program of workforce housing to "test" against the market. The term "workforce housing", though generally understood to include housing which targets workers that are essential to the community (e.g. fireman, nurses, teachers), broader definitions include service workers. For our analysis, we assume it included residents who earn as little as 50 to 60 percent of Area Median Income (AMI).

The "test" program consists of 500 units (250 each at 50 and 60 percent AMI). As the chart at top right indicates, we chose rents that are reasonable, given rents achieved at other affordable/workforce properties in St. Louis, as well as maximum income limits defined by the Department of Housing and Urban Development (HUD) for its Low Income Housing Tax Credit (LIHTC) program.

Potential Workforce Housing Program
Mid-America Medical District

Bedrooms	*Number*	*Net Rent*	*Gross Rent*	*Gross Rent Limit*
50% AMI				
1 BR	100	$500	$575	$636
2 BR	100	$575	$675	$764
3 BR	50	$650	$775	$883
60% AMI				
1 BR	100	$600	$675	$764
2 BR	100	$725	$825	$917
3 BR	50	$825	$950	$1,059

DEVELOPMENT STRATEGIES, 2009. Gross Rents include utility expenses of $75, $100, & $125 for 1, 2, & 3 BR units, respectively. The gross rent limit is set annually by HUD.

Summary of Demand from Income-Qualified Households (50% & 60% AMI)
Primary Market Area for Workforce Housing

	1 BR Units	*2 BR Units*	*3 BR Units*	*TOTAL DEMAND*
ESRI Estimate of 2009 Qualified Households	6,227	7,624	8,341	12,245
Renter Household Ratio	50%	50%	50%	50%
Household Size Ratio	55%	60%	40%	100%
Qualified Renter Households	1,712	2,287	1,668	6,123
Units Serving Income Group	200	200	100	500
Demand from Primary Market Area	75%	75%	75%	75%
Units Serving Primary Market Area	150	150	75	375
Penetration Rate - Single Year *(Units ÷ Qualified Renter HHs)*	**8.8%**	**6.6%**	**4.5%**	**6.1%**
Annualized Penetration Rate - 10 years *(Units ÷ 10/Qualified Renter HHs)*	**0.9%**	**0.7%**	**0.4%**	**0.6%**
Estimated Annual Unit Turnover	30%	30%	30%	30%
Annual Demand from Existing Households	514	686	500	1,837
ESRI Projection of 2014 Qualified Households	6,743	7,490	9,315	13,395
Renter Household Ratio	50%	50%	50%	50%
Household Size Ratio	55%	60%	40%	100%
Projected Five-year Increase in Demand	142	(40)	195	575
Projected Annual Increase in Demand	28	(8)	39	115
Total Qualified Households in Market Annually	542	678	539	1,952
Units Serving Primary Market Area	150	150	75	375
Capture Rate - Single Year *(Units ÷ Qualified Renter HHs)*	**27.7%**	**22.1%**	**13.9%**	**19.2%**
Annualized Capture Rate - 10 years *(Units ÷ 10/Qualified Renter HHs)*	**2.8%**	**2.2%**	**1.4%**	**1.9%**

Competitive Supply: Senior Housing

A reasonable monthly rate for independent and assisted living is about $2,000 to $3,500, depending on unit size and services, while daily rates for skilled nursing is approximately $125. Affordable independent senior properties also exist with rents around $600 per month.

As the senior housing industry has evolved, distinct market segments – and products best suited to serve them – have emerged. Analysis of key data can help understand supply and predict the level of demand from each segment.

- **Senior Surge:** By 2010, there will be 39 million seniors. This number will surge to 79 million by 2050.
- **Independent Living:** This housing option is most attractive to seniors, typically aged 75-84, who are generally in good physical condition. Often, the loss of a spouse is a strong predictor of a person's choice to move out of their home.
- **Assisted Living:** This option is preferred by those needing assistance with one or more activities of daily living (ADL), but do not need the intensive care that skilled nursing facilities offer. Nineteen percent of persons aged 75-84 need help with two or more ADL. This number increases to 52 percent for those over the age of 85.

The senior housing facilities surveyed are generally operating at high occupancy. Based on this data a reasonable monthly rent for an independent and assisted living facilities is approximately $2,000 to $3,500, depending on unit size and services, while reasonable daily rates for skilled nursing is approximately $125. Additionally, some affordable independent senior properties offer one- and two-bedroom units at rents that average approximately $600 for a one– or two-bedroom unit.


Renaissance Place


Cahill House


The Fountains—Granite City


Bradford Place

Senior Skilled Nursing Properties in Metro East
SUMMARY OF SELECTED RENTAL PROPERTIES

			Private		*Semi-Private*	
	Occ. Rate	*# of Units*	*Daily Rate*	*Size (SF)*	*Daily Rate*	*Size (SF)*
Virgil Calvert & Rehab Center	62%	150	$125	250	$115	250
Caseyville Nursing & Rehab	79%	150	$125	250	$115	250
Lincoln Home	76%	152	$130	250		
Total/Average	**72%**	**452**	**$127**	**250**	**$115**	**250**

Senior Independent & Assisted Living Properties
SUMMARY OF SELECTED RENTAL PROPERTIES

			Studio			*One-Bedroom*			*Two-Bedroom*		
	Occ. Rate	*# of Units*	*Avg. Rent*	*Size (SF)*	*Rent PSF*	*Avg. Rent*	*Size (SF)*	*Rent PSF*	*Avg. Rent*	*Size (SF)*	*Rent PSF*
Market Rate Properties											
The Fountains - Granite City	93%	72	$2,030	180	$11.28	$2,340	300	$7.80	$2,625	588	$4.46
Cambridge House of O'Fallon	100%	103				$2,445	437	$5.59	$3,625	648	$5.59
Bradford Place	93%	29	$1,850	287	$6.45	$2,185	450	$4.86			
Total/Average	**97%**	**204**	**$1,978**	**211**	**$9.39**	**$2,371**	**390**	**$6.07**	**$3,214**	**623**	**$5.16**
LIHTC Properties - 60% AMI											
Senior Living at Renaissance Place	96%	110				$607	662	$0.92	$607	843	$0.72
Cahill House at Murphy Park	98%	42				$608	486	$1.25			

Senior Demand

Presently, considerable demand likely exists for independent living units and assisted living beds.

Research indicates that the loss of a spouse and declining health are the two greatest determinants in a person's decision to move into senior housing. A simple way of assessing demand, therefore, is to take the number of seniors that are single by age bracket (65-74, 75-84, and 85+), and estimate the number of seniors that need ADL assistance or skilled nursing care, and assume that the remainder of 75+ residents might be interested in independent living.

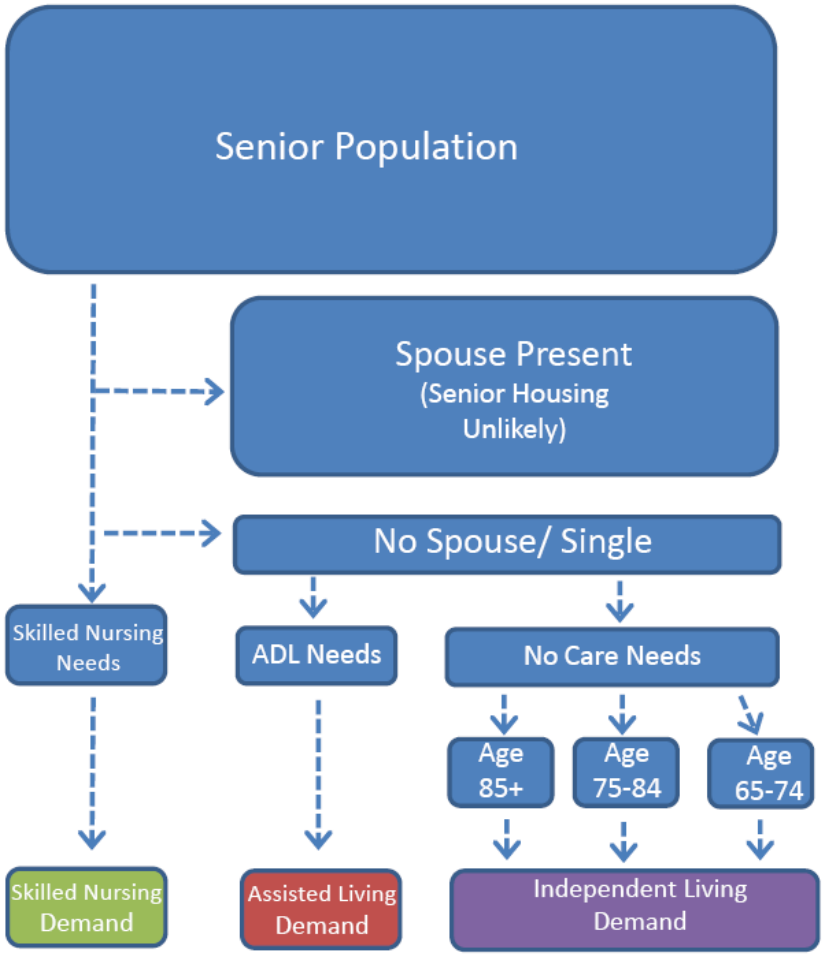
This simple methodology yields the following demand in the PMA:

- Skilled Nursing: 663 beds
- Assisted Living: 483 beds
- Independent Living: 1,693 units

By comparing these demand numbers with existing supply, it appears that skilled nursing beds have the least amount of excess demand. In fact, they appear to be grossly in oversupply, given the low occupancy rates of competitive properties. Regardless, a large number of skilled nursing beds are probably not currently the best senior housing option for the District, but may be considered as the population continues to age.

On the other hand, there is likely to be unmet demand for assisted living and independent living facilities for many years. Up to 150 independent living units would be appropriate, as well as approximately 50 assisted living beds.

A continuing care retirement community (CCRC) would be a good long-term concept for the District, starting with an independent living facility as part of a larger planned development. Skilled care would be the last component built (if warranted); providing a base of seniors in an independent living setting could create a captive market for skilled care, even if there is an oversupply of product elsewhere.



Market Analysis: Retail Overview

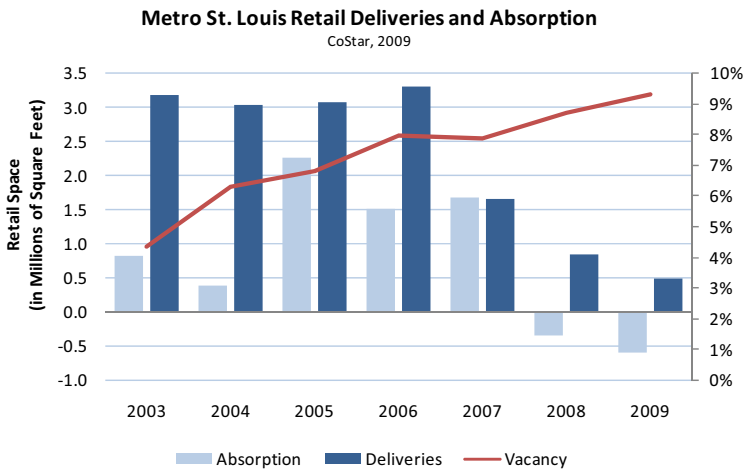
New development of shopping centers is sluggish, with very little built in the vicinity of the District.

Retail development, in a mixed-use context, generates pedestrian activity and vibrancy, adds value to surrounding development, and enhances the overall desirability of a neighborhood or district. Retail is perhaps the most competitive of the real estate industries; products and retailers are constantly evolving to meet changing consumer demands, often replacing outdated products (be they shopping centers or competitive retailers) in what has been referred to as "Retail Darwinism."

CoStar estimates that there is roughly 125 million square feet of retail space in the St. Louis region, of which 24 million, or 19 percent, is located in Illinois. It estimates the overall market's occupancy to be approximately 91 percent, while the Illinois market has an occupancy rate of 92 percent.

Conversations with brokers, as well as physical inspection of the market, indicate that like office development, growth in the retail sector has been sluggish in recent years after substantial growth from 2001 to 2006. During the past 27 years, an average of roughly two million square feet of retail space was delivered annually. Approximately 800,000 square feet of space was delivered in 2008 and 500,000 was delivered in 2009.

The largest concentration of retail in the Illinois market is situated around the St. Clair Square Shopping Center in Fairview Heights. A partial list of anchor retailers in the vicinity includes Macy's, Sears, JC Penney, Target, and Wal-Mart. Another nearby retail submarket is clustered in Downtown St. Louis. Here, shopping is generally confined to various dining establishments and specialty stores that serve day-time workers, tourists, and loft dwellers.



Above: St. Clair Square Mall in Fairview Heights; **Right:** Specialty retailer located in Downtown St. Louis.

Retail Supply: Competitive Environment

Prime retail locations generally achieve leases that exceed $20 per square foot, while most average locations achieve rates between $15 and $20.

The fifth and most recent phase of the State Street shopping center – East St. Louis' newest retail property – provides the best indicator of retail opportunity at the site. This phase of the project is anchored by a Schnucks store and includes 51,870 square feet of retail space. At this shopping center, in-line stores achieve lease rates of $15 per square foot (NNN). Absorption of this space occurred at a rate of 2,300 square feet per month. The center also includes a Walgreens pharmacy.

As is true virtually everywhere, agreements with anchor tenants is kept private. Often, retailers such as Wal-Mart or Schnucks purchase the land that they occupy, while the developer generates lease revenue from the in-line stores. It is generally estimated that a major discount retail anchor (e.g. Target or Wal-Mart) will pay $5 to $10 million for approximately 10 acres of land on which they will locate their building and parking.

Collinsville Crossing is a recent example of a retail development that benefits from its proximity to anchor retail. In this instance, the shops are at an interchange location near a Wal-Mart store and Sam's Club store. Built in 2006, Collinsville Crossing has more than 400,000 square feet of retail space and has asking rents of up to $26 per square foot. It is currently 99 percent leased. It has relevance for the District because it indicates the importance of securing an anchor tenant within the District. It also has similar location characteristics, including its proximity to a major interchange.

The District has potential for specific types of retail, especially along a portion of Collinsville Road towards the northern side of the District. This section contains various historic properties and an intact streetscape that could accommodate services geared toward day-time workers at the medical center, which will be within walking distance. On the north of the strip, two larger vacant sites could serve as sites for various anchors, specifically a grocery store. The other alternative for this area is full demolition and rebuilding, which should be based on existing conditions of the properties in question.

The District has various strengths associated with locating retail anchors, including superior visibility and accessibility. However, it is unlikely that the District could attain higher-paying retailers and would not be able to match the rent achievements at Collinsville Crossing, which currently has asking rents that exceed $25 per square foot (NNN). On the other hand, if one or two smaller anchor tenants can be secured, rates of $15 to $20 and absorption rates of 1,500 to 2,000 square feet per month are reasonable.

Selected Retail Properties

St. Louis MSA

Map Code	Shopping Center	Retail Type	Square Feet	Occupancy	Quoted Lease (per s.f.)	Lease Type	Year Built/ Renovated	Absorption/ mo
1	State Street V	Anchor - Schnucks	51,780	100%	$15.00	-	2006	-
2	Tudor Building	Anchorless In-line	21,400	91%	$13.00	NNN	2008	1,600
3	Collinsville Crossing	Anchor - Walmart	401,745	99%	$26.00	-	2006	-
4	Firehouse Crossings	In-line stores	20,600	100%	$16.00	NNN	2007	1,200
5	MLK Plaza I & II	Anchor - Save-A-Lot	56,619	100%	$16-$22	NNN	2003	-
6	Greenmount Crossing	In-line stores	86,570	85%	$19.00	NNN	2003	-

CoStar, 2009


State Street Shopping Centre

Retail: Residentially-Driven Demand

By comparing supply and demand for retail services, we can determine surpluses in demand—opportunities for new retail development.

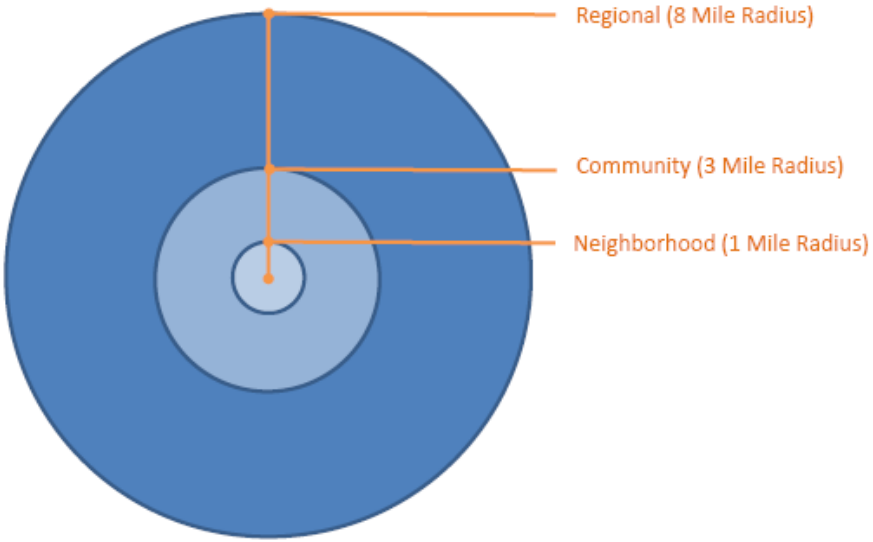
Demand Methodology: Evaluating retail market demand requires assessing several different levels: neighborhood, community, and regional. Essentially, larger shopping centers and malls with a broader range of services and more anchor stores draw from larger market areas than say, a grocery store-anchored center with a few shops. Conversely, market areas often overlap. A neighborhood might not have a need for a large shopping center because one is located within three miles, but may have a need for a drugstore and supermarket.

The government collects data on consumer expenditures each year. We know, for example, that the average household spends roughly 30 percent of its income on retail goods. By comparing the types of goods that households in a market area are buying with the actual stores located in a market area, we can determine whether supply is effectively meeting demand. If not, there may be opportunities to build more stores.

Existing Demand: The charts on the following pages assess demand at the neighborhood level (East St. Louis), Primary Market Area (PMA, or Community Market Area), as well as the regional market (defined as areas of the Metro East within St. Clair and Madison counties), and indicate opportunities to develop certain types of undersupplied retail.

Generally, the PMA (with a population of 117,000, households of 45,000, and a median household income of $36,000) appears "underretailed" in several categories. This, however, can be explained by the regional retail near St. Clair Square, which serves the entire market, including residents in the PMA.

RETAIL MARKET AREAS DIAGRAM



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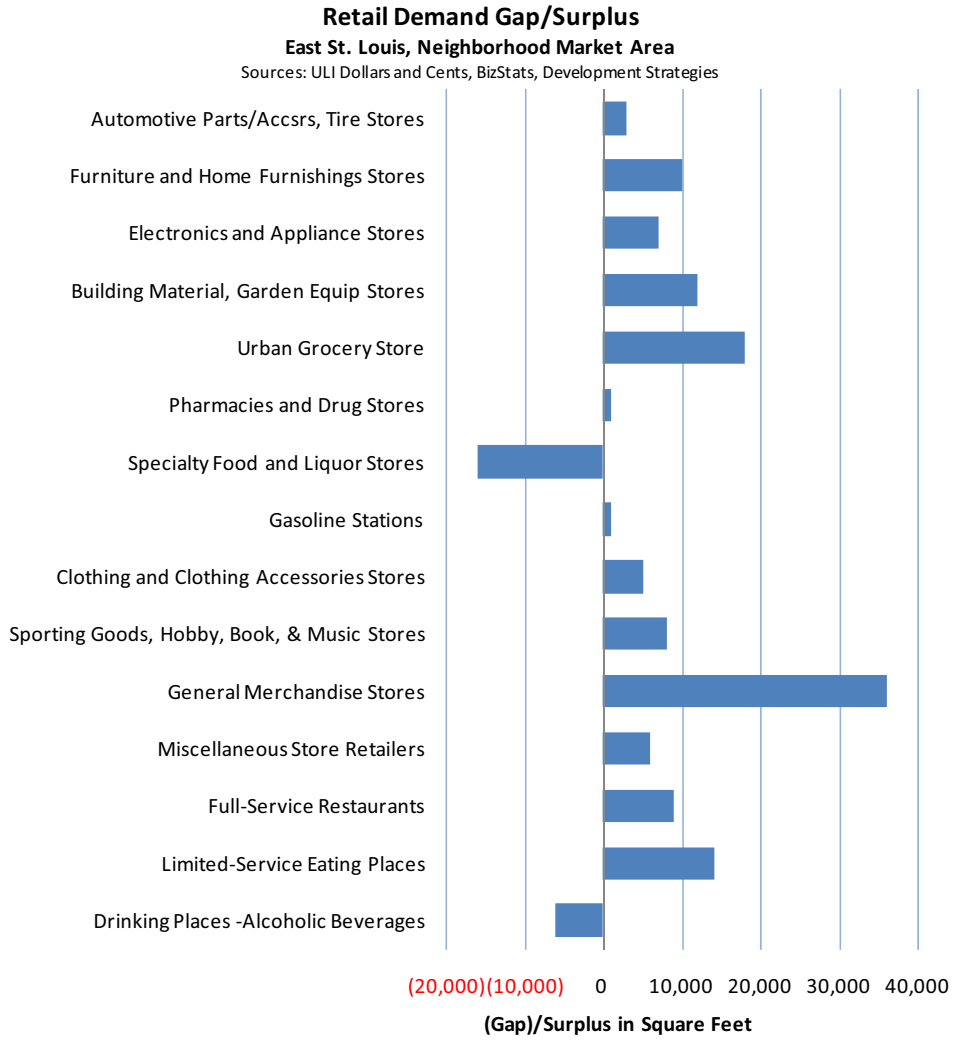
Retail: Residentially-Driven Demand

The single biggest opportunity in the Retail Neighborhood Market Area is a general merchandise store, such as a Target store. Substantial opportunity also exists for an urban grocery store.

Neighborhood Market Area (East St. Louis): The adjacent chart demonstrates that there a demand surplus in almost every type of retail category in the neighborhood market area. This demand surplus cumulatively amounts to 27,000 square feet of unmet retail demand that could be provided at the District.

One of the District's best opportunities includes a roughly 35,000 square foot demand surplus in the general merchandise category. This surplus goes a long way in attracting the type of retail store that might attract shoppers from outside the market area. This type of retail often includes store such as Target.

Another encouraging opportunity consists of nearly 20,000 square foot demand surplus for a grocery store. This type of parameter is fitting for an urban-style grocer, which could substantially enhance the appeal of the district to prospective market rate households or those patrons seeking a more "walkable" retail and shopping environment.



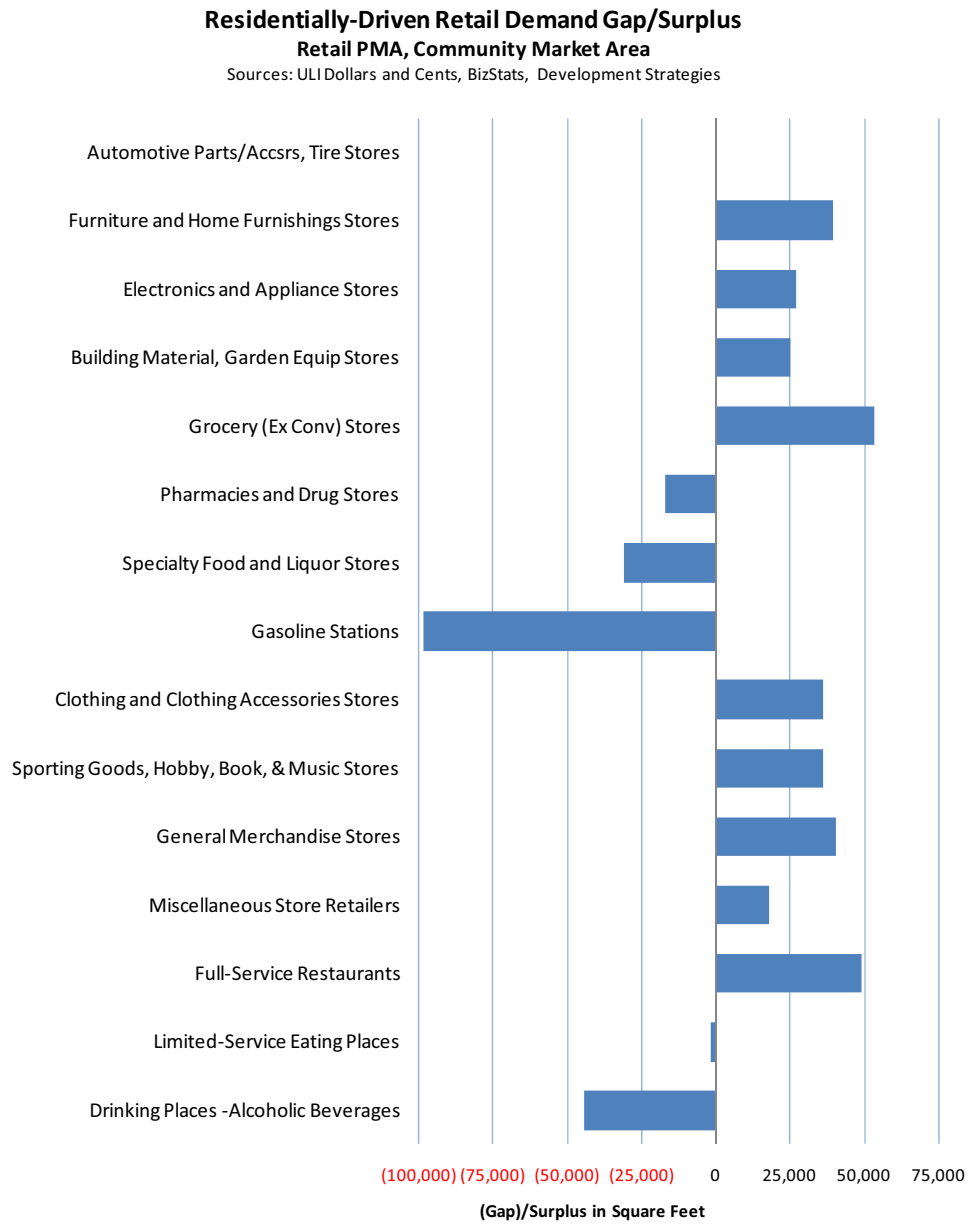
Retail: Residentially-Driven Demand

The two opportunities in the Retail PMA is a grocery store and full-service restaurants, both value-added amenities in a mixed-use context.

Primary Market Area (PMA): The adjacent chart demonstrates that there is a demand surplus for the majority of retail categories within the RPMA. However, this demand surplus cumulatively amounts to 5,000 square feet of excess supply, which is primarily due to an excess supply of gasoline stations in the PMA. Excluding this category, an additional 90,000 square feet of retail space could be supported within the PMA, much of which could be captured within the District.

Given the mixed-use "vision" for the District, one intriguing area of opportunity is a roughly 50,000 square foot demand surplus in the full-service restaurant category. Capturing a substantial proportion of this demand could be pivotal in attracting office tenants, as office development is often driven by its proximity to various amenities, including restaurants.

Similar to the neighborhood market area, a surplus in demand exists for a grocery store. While a second large-scale store in East St. Louis may not be as feasible, some of this demand could be met with a smaller urban grocery store. Smaller amounts of retail demand exist in many categories, including general merchandise, electronics, building material, clothing, and sporting goods.



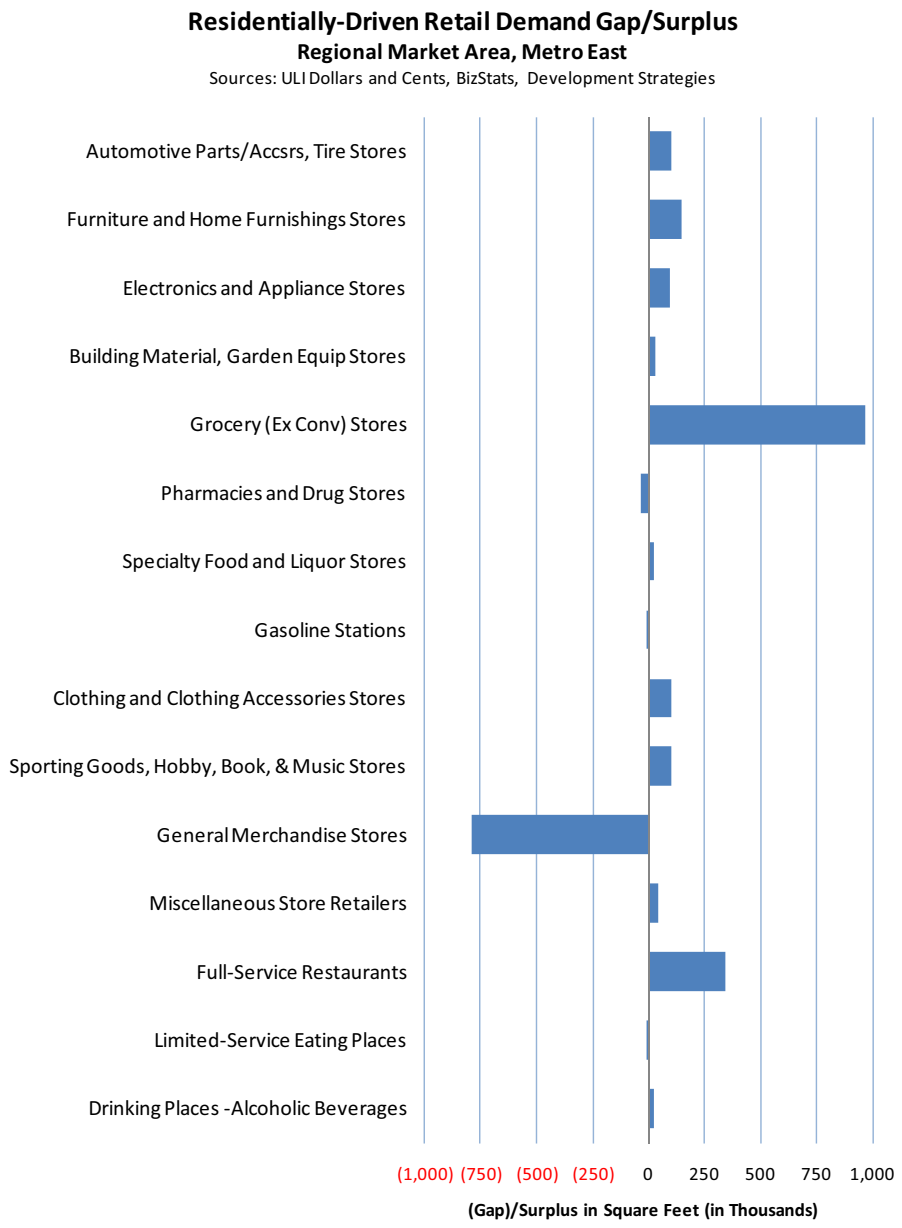
Retail: Residentially-Driven Demand

While demand for most retail categories in the Metro East is generally in line with supply, the Metro East is underserved with respect to grocery stores.

Regional Market Area (Metro East): Analysis of supply and demand in the Metro East generally indicates reason for caution in being overly optimistic in forecasting retail demand at the District level. The chart to the right indicates that, with few exceptions, retail supply is generally in line with retail demand. This is because most regional retailers are available to Metro East residents at St. Clair Square and its environs.

Despite this, we find that demand is still likely to exist at the site for several services that are not currently provided in the smaller, Community and Neighborhood market area. St. Clair Square is not that convenient to many residents in these areas and these residents would likely prefer retailers that are located more closely to their households.

Intriguingly, grocery stores are grossly undersupplied in the Metro East, in addition to the two smaller market areas. Because few new stores are proposed or under construction for these areas, excess demand is not likely to be met. As part of a large-scale mixed-use redevelopment, the District could be a suitable location for an small-scale urban grocery store that would cater to both District residents and workers.



Retail Demand: Worker Spending

Worker spending may add another 10,000 square feet of retail support—primarily in the restaurant industry.

Worker Spending: Another source of retail support comes from worker spending. Employment density within the District is relatively low, so this is a small generator of retail demand. Nevertheless, we have calculated the amount of retail space that is supported by worker demand, based on a total of 1,500 employees in the District.

Although studies regarding downtown worker spending varies considerably from as high as $26 per day in large cities such as Chicago and Philadelphia to $6 per day in smaller towns such as Knoxville, Tennessee, we have assumed an average of $7.50 per day in average worker spending. This would generate demand for an additional 10,000 square feet of retail in the District. This, added to the roughly 30,000 square feet of surplus retail demand in East St. Louis and 90,000 square feet of surplus demand in the PMA, equates to 40,000 to 100,000 square feet of additional retail demand.

Worker Spending Retail, Mid-America Medical District	
Workers*	1,500
Daily Spending Per Worker	$8.00
Total Daily Spending	$12,000
Work Days	250
Total Annual Spending	$3,000,000
Sales/square foot	$300
Total Supportable Restaurant/Retail Space (s.f.)	***10,000***
*ESRI, 2009; DEVELOPMENT STRATEGIES	

Retail Supply: New Residents

As a general rule, every 500 households will drive demand for an additional 10,000 square feet of retail.

New Resident Demand: Another form of support for retail development will come from future demand from new residents in the residential portion of the District. We have included projections indicating that the District could add roughly 500 to 1,000 new housing units over the next 15 to 20 years, with little growth in other areas of East St. Louis. The U.S. Bureau of Labor Statistics publishes the Consumer Expenditure Survey (CES), which helps us estimate the amount households spend on various retail goods. Thanks to the Urban Land Institute, we also know the sales per square foot that a store needs to make to sustain itself. The table at top right shows the amount of supportable retail another 250, 500, 750, and 1,000 residents would generate.

Captured Demand: However, consumers do not make all retail expenditures within the confines of their neighborhood. Some of it "leaks" elsewhere. For instance, consumers will travel to restaurants outside their neighborhood, and will go to a regional mall to look for comparison goods, such as clothing. The second chart estimates the percentage of retail expenditures that the District could capture (highlighted in blue). As a result, we estimate that every 250 new units of housing would generate roughly 3,300 square feet of retail demand. Therefore, in the next 15 to 20 years, the amount of undersupplied retail demand could increase from about 27,000 square feet to nearly 40,000 square feet assuming that the District is able to add up to 1,000 new residential units.

Projected Future Retail Demand
Neighborhood Market Area (East St. Louis)

		Demand from New District Housing (s.f.)			
Retail Stores	*Estimated Sales/s.f.**	*250 Units*	*500 Units*	*750 Units*	*1,000 Units*
Furniture and Home Furnishings Stores	$350	300	500	800	1,000
Electronics and Appliance Stores	$400	400	800	1,200	1,500
Building Material, Garden Equip Stores	$300	400	800	1,100	1,500
Urban Grocery Store, Conv. Store	$350	1,900	3,700	5,600	7,500
Pharmacies and Drug Stores	$900	0	100	100	100
Gasoline Stations	$1,300	300	600	900	1,200
Clothing & Accessories	$350	800	1,600	2,400	3,200
Bookstores, Music Stores, etc.	$250	200	400	600	800
General Merchandise Stores	$300	0	100	100	100
Full-Service Restaurants	$350	600	1,200	1,700	2,300
Limited-Service Eating Places	$400	400	800	1,200	1,500
Drinking Places (Bars)	$375	200	300	500	700
Total:	**-**	***7,000***	***12,000***	***18,000***	***24,000***

Projected Future Retail Demand
Neighborhood Market Area (East St. Louis)

		Capture from New District Housing (s.f.)			
Retail Stores	*Percent Capture*	*250 Units*	*500 Units*	*750 Units*	*1,000 Units*
Furniture and Home Furnishings Stores	50%	150	250	400	500
Electronics and Appliance Stores	33%	132	264	396	495
Building Material, Garden Equip Stores	33%	132	264	363	495
Urban Grocery Store, Conv. Store	85%	1,615	3,145	4,760	6,375
Pharmacies and Drug Stores	85%	0	85	85	85
Gasoline Stations	80%	240	480	720	960
Clothing & Accessories	40%	320	640	960	1,280
Bookstores, Music Stores, etc.	50%	100	200	300	400
General Merchandise Stores	-	-	-	-	-
Full-Service Restaurants	50%	300	600	850	1,150
Limited-Service Eating Places	50%	200	400	600	750
Drinking Places (Bars)	50%	100	150	250	350
Total:		***3,300***	***6,500***	***9,700***	***12,800***

Development Strategy

Effective land use, programming, and phasing are necessary to ensure that the District realizes its full potential. We assume development of the site will begin at some point if the District can reposition itself as a center for medical, educational, and research-oriented activity.

Market opportunities for a given site can vary greatly depending on circumstance. Ultimately, what is the true market value of a property: that which the site has under current conditions, or that which the site has under ideal (optimal) conditions? In this analysis, we assume development will begin at some point in the future, when the District begins attracting private investment and has positioned itself as a center for health-care related activity.

Any retail strategy is going to be highly dependent upon the site's ability to attract retailers that have succeeded in urban settings. We noted a discount general merchandise retailer and urban grocer as possible anchors. Up to ten acres should be set aside for these uses, with much of it concentrated towards the historic street front along Collinsville Avenue. The sites near Collinsville need to be able to accommodate some other type of use, such as multifamily residential and higher densities. Lots closest to Broadway should be reserved for the most valuable uses, such as outlots and in-line retail. Office uses should be concentrated around the existing medical uses and the Courthouse. In all, 40,000 to 100,000 square feet of various retail, about 220,000 square feet of various medical offices, and roughly 125,000 square feet of general office space need to be accommodated.

Much of the southern portion of the District lacks commercial visibility; thus residential uses should be planned for this part of the site. Four building typologies – multifamily rental, senior housing, townhome, and single family – should be represented in the site plan. Multifamily housing is more dependent on visibility, so space needs to be allotted for this type of use, either within view of Collinsville Avenue or along a major entry road. This is also generally true of senior housing. The majority of single family lots should range in size from 4,000 square feet to 6,000 square feet. This will accommodate homes that sell between say, $125,000 and $175,000 or rental homes priced at roughly $800 to $1,100 per month. Multi-family for-sale condominiums are not a viable housing option, so any multi-family construction should be rental housing that contains a mix of market and affordable unit types.

Public space can play a critical role in value creation at the site. It can make a more pleasing and competitive environment for in-line retail. It can also make denser forms of residential development feasible, as buyers will compromise some private green space for public green space. Token gestures, such as a fountain at an entrance point, are less valuable than meaningful public space, such as well-defined plazas and greenspace. Second-story residential units above retail are desirable because they add to the quality of space and help create a synergy of uses. However, these arrangements have often performed poorly because developers seek to achieve premium rents for these spaces. We suggest an alternative strategy of discounting these units, and realizing the value-creation through improved absorption and occupancies of nearby residences.

On the following pages, this strategy provides a program matrix that summarizes key issues and quantifies property performance; offers a realistic phasing strategy based on absorption conclusions; and provides information which will help guide effective land use.

Development Strategy: Program Matrix

	Summary Comments		Price/Rate	Demand
Rental	• The regional housing market is currently in a slump, although there are signs of improvement. • Although ESRI forecasts indicate population and household decline in the PMA, housing targeted to low- and moderate-income households are in high demand. • Though housing permits in the St. Louis region averaged nearly 12,000 units annually prior to 2007, historic data indicates that roughly 10,000 units per year is more likely once the market fully recovers. • A nominal 1% annual capture of this growth yields roughly 100 units annually for the District.	• Supply data indicates a market for new affordable product in parts of St. Louis, including East St. Louis. • Demand data reveals strong demand for workforce and affordable housing. • Target households: low- and moderate-income singles and families; $20,000-$50,000 annually.	Rents: Market Rate $600-$1,000 /month ($0.80-$0.90 psf) Workforce $450-$850 /month ($0.60-$0.70 psf) Indep. Senior $600/month	Rental: 50-100 units/ 2 years (500-1,000 units over 20 years) For-Sale: 25-50 units/ 4 years (125-250 units over 20 years, phased in later years) Total: 625-1,250 units
For-Sale		• Stagnant market with declining home prices and sales. • Markets with greatest depth are: $90K-$125K; $120K-$165K; and $165-$250K.	Sales: Townhomes $140-$160k ($100-$120 psf) Single-Family $180-$220k ($130-$150 psf)	

Development Strategy: Program Matrix

	Summary Comments	Price/Rate	Demand
Office	• The St. Louis region is expected to add roughly 4.5 million square feet of medical office space over the next 20 years. • The St. Louis region is also projected to add about 2.8 million square feet of general office space during the same time-frame. • Although the District is not currently positioned to capture any of this regional growth, if a major realignment occurs, the District could capture roughly 2.5% of this growth.	Lease Rates: $16-$18 psf for Class B space with surface parking lots	Medical Office: 220,000 s.f. in 20 years (roughly 50,000 s.f. ever 5 years) General Office: 125,000 s.f. in 20 years (phased in later years)
Retail	• Opportunities may exist for a discount general merchandise retailer, a specialty grocer, as well as some full- and limited-service restaurants. • Nominal additional demand from potential new residents and employees in the District. • Much of the retail should be concentrated in the historic storefronts along Collinsville Avenue.	Lease Rates: $15-$20 psf	Anchor Retail (Grocery): 30K-50K In-Line Retail (Collinsville Ave): 20K-30K Stand-Alone Retail: 10K-20K

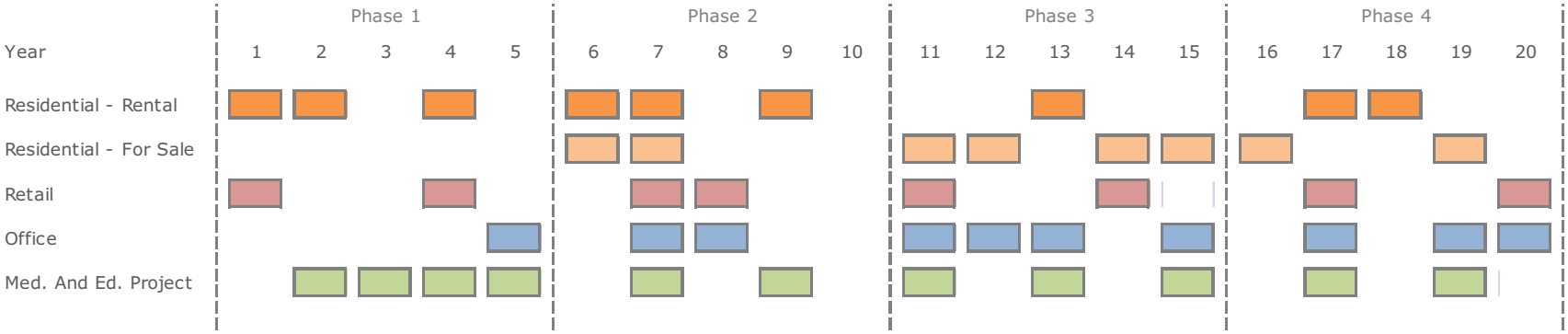
Development Strategy: Phasing

Over 20 years, the District could absorb roughly 625 to 1,250 housing units, 345,000 square feet of medical and general office space, and 60,000 to 100,000 square feet of retail.

The diagram below illustrates our phasing and program strategy. The table at right indicates the amount of real estate development that this is likely to translate into over 20 years. The chart on the following page explains our phasing strategy in further detail.

	1-5 Years	6-10 Years	11-15 Years	16-20 Years	Total
Residential	200-300 Units	200-300 Units	100-200 Units	100-200 Units	625-1,250 Units
Office	25K	75K	125K	110K	345K
Retail	10K	40K	25K	25K	100K
Med/Ed	Rec. Center	Education Facility / Med. Facility	Education Facility / Med. Facility	Education Facility / Med. Facility	-

Phasing and Program Diagram



Development Strategy: Program Matrix

Phasing Strategy Chart

Residential - Rental	Project is initially heavily reliant on rental development, which has immediate market demand.	Rental development continues to be a strong driver of development.	Rental development continues, but its proportion of overal residential development is reduced.	Rental development continues, but its proportion of overal residential development is reduced.
Residential - For-Sale	None	For-sale development is incremental, several years are allocated for absorption of a single phase.	For-sale projects increase in size and frequency as critical mass of services and residents begins to materialize.	For-sale development levels off to a consistent number, as the community has become more established.
Retail	Some initial retail is developed to capture existing demand; however, lack of major infrastructure improvements prevents further development.	Recommended street-scape improvements along Collinsville Ave. and increase in District residents and employees, boosts retail demand and access. General merchandize store and grocery store are built.	Retail occurs incrementally, as additional residents and employees generates demand for more services.	Retail occurs incrementally, as additional residents and employees generates demand for more services.
Office	The project's ability to capture office demand is initially slow, due to marketability issues.	With various infrastructure improvements, and enhanced image due to initial medical and educational development, office profile is enhanced, improving ability to attract office development.	Office development gains velocity due to increased marketability from greater retail, residential, and health-care related activity.	Office development moderates, but continues to be a viable option.
Medical and Education Project	Various civic, health-care, and educational projects are developed early to compensate for lack of other services. Recreation center, greenspace, vocational school, clinic…	Medical and educational projects continue.	Medical and educational projects continue.	Medical and educational projects continue.

Development Strategy: Land Use