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COMMERCIAL REAL ESTATE

In the Arch's Shadow, Signs of Revival

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Framed on the east by Eero Saarinen's forward-looking Gateway Arch and on the west by the majestic Romanesque-style Union Station, downtown St. Louis might be the most studied 2.91 square miles in the nation. At least a dozen reports have been commissioned in recent years to dissect its shortcomings and point the way to a brighter future.

Invariably, those efforts delivered the same bad news: despite its status as Missouri's largest office center and the hub for three successful professional sports teams, downtown was in dire straits. Last year, a California consultant pronounced the downtown "one of the most lifeless and uninteresting" in America.

Cut off from the Mississippi River by Interstate 70, the business district was marooned from its past. Large corporations were vacating to suburban locations or swallowed by out-of-state acquirers. Foot traffic had all but evaporated.

For St. Louisans, the decline was all the more unnerving because it seemed that other waterfront cities - Cincinnati, Cleveland and Pittsburgh, for example - were becoming increasingly lively. Worse still, tens of millions of square feet of commercial space in the downtown core sat vacant. The brick and stone edifices - some of them national landmarks - were crumbling.

But, increasingly, civic leaders are convinced that the worst has passed. In the last six years, a comprehensive plan to reinvigorate downtown has been set in motion, and more than \$2.5 billion has been committed to 125 projects. While many initiatives are still in their infancy, a few are far enough along that national developers are said to be taking notice, investing hundreds of millions of dollars in the future of downtown St. Louis.

W. Thomas Reeves, executive director of Downtown Now, a public-private partnership working to rejuvenate the area, said that 2004 was the tipping point for the revitalization of downtown St. Louis. "It's no longer a conversation; it's real construction," he said.

Notable projects include a new federal courthouse, a convention center hotel and a new baseball stadium scheduled to be finished by next spring, but local experts think the future of downtown will have less to do with these blockbusters than with a fundamental shift in the city's approach to development.

"I think the biggest change is that we're not just focused on one project," said Barbara Geisman, who heads economic development for Mayor Francis G. Slay. "We are addressing all of the issues that prevented us from achieving critical mass in the past."

The sea change can be traced to several critical events in the late 1990's. In 1997, after hundreds of community meetings, St. Louis 2004, an organization led by former Senator John C. Danforth, came out with an action plan for the region that included as one its top priorities the revival of downtown.

That same year, Clarence Harmon, the mayor who preceded Mr. Slay, appointed Downtown Now, a committee that included representatives from St. Louis 2004, the area's largest business organizations, downtown corporations and private citizens.

Perhaps most important, the Missouri Legislature and Gov. Mel Carnahan enacted a state historic tax credit that when added to the federal historic tax credit made it much more attractive to turn vacant or underused old buildings into housing, hotels and retail space.

In 2000, Downtown Now hired Mr. Reeves, a banker who had overseen [Mercantile Bank's](#) real estate lending, as its executive director and started a \$1.2 billion plan that focused on four downtown areas: Washington Avenue, the Old Post Office District, Laclede's Landing and the Gateway Mall.

"What is happening is completely fueled by the state historic credit being added to the federal credit, which could only happen if you had this tremendous store of historic buildings, all of which were on the National Register or eligible for listing," said Carolyn H. Toft, the president of the Landmarks Association of St. Louis and a framer of the state credit.

Oddly, the lack of downtown activity for so long kept much of the city's trove of old buildings in suspended animation. Otherwise, they might have been torn down, Ms. Toft said.

The first redevelopment happened on Washington Avenue, where old garment district warehouses, with their big floor areas, made for relatively easy conversion to lofts and provided plenty of space for first floor retailing.

"They were all vacant, and there is no way offices were going back into those," said Richard C. Ward, chairman of Development Strategies, a St. Louis consulting firm specializing in urban development. "That's why I say thank goodness for the residential market because you're never going to use these warehouse buildings as warehouses."

A report issued last year states that since 2000, 36 historic buildings have reopened or are under reconstruction, adding 1,863 residential units to the downtown market. For a city that lost 12 percent of its population from 1990 to 2000, the influx has been hailed as a turnaround. Another 1,050 units are coming on the market in 2005 alone, and 1,359 more are planned.

Every residential property developed since 2000 projected through 2006 is a renovation of a historic building, and most have had substantial support from the historic tax credits. Approximately 5 million square feet - of 15 million vacant square feet - has been consumed. Of 9,610 residents downtown, 4,644 live in market-rate properties. Of those living in the market-rate housing, 82 percent are college graduates, with 30 percent hold postgraduate degrees.

"I do think there is something very real here," Mr. Ward said. "People are making investment decisions to live downtown as fast as they can build the darn units."

Part of the attraction is price. The average price per square foot for condominiums is \$150, and the monthly rent for apartments is \$1.05 per square foot.

The market is beginning to show signs that it can also attract an older, more wealthy buyer. Craig Heller, one of the first loft condominium developers downtown, recently sold a penthouse condominium for \$750,000 - or \$225 a square foot. "Somebody reading this in New York would laugh, but for us it's good," he said. "It's a nice thing because it shows this kind of living is not just the kids."

Along with the people has come the first wave of new restaurants and retail. "We've opened seven new retail establishments since July of 2004 and about that number of restaurants, and we have an equivalent number that may open in the next six months," said James Cloar, president of Downtown St. Louis Partnership. "It's getting to where many of these restaurants on the weekend, you can't get in."

In addition to Washington Avenue, Downtown Now has focused on reviving the Old Post Office and Custom House, which anchors an entire block in the nine-block-long area known as the Old Post Office District. Set back by broad sidewalks and set apart by its Second Empire style and granite facade, the national landmark was operated until recently by the General Services Administration and was scheduled to be closed. Now, it is undergoing a \$77 million renovation for use by businesses, educational institutions and courts and the construction of a 1,000-car parking garage.

The deal took five years to work out; it involves \$28 million in corporate tax credits and a raft of federal, state and other commercial tax credits, and it comes with its own controversy. To make way for the garage, another historic building, the Century, was razed, to the dismay of preservationists, like Ms. Toft. "It's not ironic; it's irrational," she declared.

Leading the development is the financier Steven J. Stogel of DFC Group, a consulting and development firm, and Mark Schnuck of Desco, the commercial real estate arm of the Schnuck Markets, a regional supermarket chain with \$2 billion in revenue. Mr. Schnuck's brothers, Craig and Scott C., have headed two powerful business organizations in the city: Civic Progress and Regional Chamber and Growth Association.

"We're St. Louisans and we really felt there was a civic responsibility to try and get involved in some way or another and trying to be a catalyst for this redevelopment," Mark Schnuck said. "It is such a skinny deal, that is one with a potential return rather limited in light of the size of the property. "You have a building that is 248,000 square feet, but there's only about 135,000 square feet that's usable because it's such a high cube and large common areas."

So far, 70 percent of the space has been leased, mostly by institutions and smaller companies - including the Missouri Court of Appeals, Webster University and The St. Louis Business Journal - that were already downtown.

The blighted blocks surrounding the Old Post Office have also undergone a conversion to residential use, with another one million previously vacant square feet already renovated or out for bid, including projects from two major investors: a \$14 million conversion of the old St. Louis Board of Education building into lofts by Steven and Michael Roberts, and the \$52 million Paul Brown Loft Apartments, done by John Steffen of Pyramid Construction.

Now, the biggest worry for downtown is the office market, Mr. Ward and others said.

"The good side of the story is the residential is going to create a whole new atmosphere downtown," Mr. Ward said. "It's not going to feel like a dead place. More young people are saying that's the place to be. And that will eventually - I don't know how quickly - accrue to the office market."