

MEMORANDUM

Re: Proposed Magnolia Ridge Multi-Family Development
Date: 03/22/2022

To: Doug Harms
From: John Brancaglione
CC: Chris Graville
Scott Schaefer

INTRODUCTION AND PURPOSE OF THIS MEMORANDUM

Before we make comments about this proposed project and suggest changes to the Zoning Code that might permit it, it is necessary that the Planning and Zoning Commission and the Board of Aldermen decide if they want to permit multi-family housing within the City's boundaries, and if so where it might be considered appropriate. When the City's current Comprehensive Plan was being developed and was followed by a major update of the Zoning Code, it was clear based on input from the Commission and the Board that residential development should be limited to traditional single-family housing with limited instances of villa or townhouse development in appropriate locations.

Changes in shopping patterns have altered the retail land use patterns in a significant way that we believe will be permanent. This means that some current retail development is becoming obsolete and will be repurposed or redeveloped for other uses which will often include multi-family, office, medical, or institutional uses. The purpose of this memorandum is to outline the market changes in key sectors and assist the Planning and Zoning Commission and the Board of Aldermen in making decisions about the future development of the City. This memorandum also is intended to serve as a platform for a modification to the future land use element of the City's Comprehensive Plan was followed by a major update of the Zoning Code which doesn't recognize the land use evolution that is discussed herein or multi-family uses.

The Planned Development regulations for residential development (PD-R or PD-MXD) were written to provide for villa or townhouse developments in select locations that could meet certain site size requirements and maximum density. However, these regulations were structured to limit such development to owner-occupied units and development of relatively low density compared to typical multi-family development. While the ability to grant certain deviations/variances as part of the process are provided for, we believe that approving the Magnolia Ridge project under the existing regulations cannot occur without significant modifications to those sections of the code, simply because multi-family development is currently not permitted in the City. Also, other aspects of the PD code provisions have limiting development standards and requirements that would not permit typical multi-family densities.

In making a decision regarding whether or not to permit multi-family development we believe that some market factors should be taken into consideration. These factors are likely to impact certain parcels along the City's Manchester Road corridor. To help understand why the Magnolia Ridge project showed up on the City doorstep and why you might see more proposals with multi-family

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components, it is important to look at market conditions that are impacting residential and commercial markets. We believe that these market conditions will prevail for some time in the future and will impact the potential use of existing retail sites and regional mall sites.

CURRENT AND FUTURE HOUSING MARKET CONDITIONS

All of the real estate market data that we regularly review has been showing a shift in housing demand that is shifting away from traditional single-family units. As everyone knows, single-family homes sales as a market are thriving and prices in desirable neighborhoods or communities are high. But a shift has been occurring in middle, upper-middle, and upper- income communities in terms of demand and unit type. Since PGAV PLANNERS has a practice that spans the U.S., we have seen this same trend everywhere including metro-St. Louis. These trends are noted below.

- **Suburban Single-Family** – Recent trends in suburban settings that favor two-story single-family units hasn't changed but the desire for large lots for these units has declined particularly in the lower-upper and upper price brackets. This is driven by the aging population in many metro areas. Persons with no children or children no longer at home and retirees are much more active today as they age and want to spend time doing things other than maintaining a large yard. Therefore, in many St. Louis County communities, the market has seen new and/or infill development providing a large house on lots that are much smaller and thus creating a denser single-family environment. In established communities like Des Peres, the units often occur in older existing subdivisions where larger lots allow a larger house on a site that often was occupied by a ranch-style house that was demolished to make way for the larger unit. Large-lots and the added upkeep are not as desirable today.
- **Low/No Maintenance Units** – This same demographic has also driven the demand for zero-lot line and villa developments that are still essentially single-family structures and are owner-occupied. However, in these developments the home owners' association handles all grounds maintenance, snow removal from driveways and sidewalks, and in some cases certain maintenance of the exterior of the unit. The housing unit and lot on which it sits is still owned by the occupant. This development model carries an annual or monthly maintenance fee like a condominium-type development. These types of housing developments are being sought by retirees, singles, and professionals who want to own a home but don't want the recurring maintenance responsibilities.
- **Single-Family Row-House/Townhouse** – This style of housing is built on small lots typically laid out with alleys that access rear garages with the unit facing the street with little or no front yard other than a front sidewalk and tree lawn. These are being built around the St. Louis region in varying locations from the "Hill" neighborhood in the City, Lake Saint Louis, the Affton area

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of St. Louis County, and as part of a proposed development on a portion of the former Crestwood Plaza site in the City of Crestwood.

- **Single-Family Row-House/Townhouse Rental** – The newest trend are developments of single-family housing that are rental units typically built in the row-house/townhouse model. These may be attached or detached units. Proposed developments for this model are cropping up in the St. Louis region and have been rapidly happening in other metro areas. These are usually not small in terms of living area square footage (typically 1,500 to 2,500 SF) and the rental rates are higher, equivalent to or slightly above what a 30-year mortgage would be on a similar unit. These are catering to single persons and couples that are in highly-skilled technical or professional employment, don't want any of the responsibilities or costs associated with home ownership, but do not want apartment living.
- **Luxury Multi-Family Developments** – This type of development caters to somewhat the same market as the row-house/townhouse rental market. These are relatively dense developments and, in suburban locations, similar to the proposed Magnolia Ridge project in density and amenities. The typical driver that promoted owning your house as an investment has become less a motivation for many folks. These people typically have an active life-style, higher income, do not want home-ownership costs or responsibilities, but want an upscale living-space. They will pay for site-amenities, views, location, and garage or covered parking. In upper-income communities, this market is also often sought by people who own a property in another climate where they live for part of a year but want a place to come “home” to either on a seasonal basis or when inclined to do so. These units might also be occupied year round by another family-member or relative who lives there year-round wherein the costs of the unit are shared. These units are also typically at least 2-bedroom units. Rents are typically in the \$1,600 to \$2,500 range and covered/garage parking may be an additional charge.

CONSIDERATIONS FOR THE CITY

As part of this process, the Commission and the Board need to think about future City development in light of other market trends. This particularly applies to existing properties that have development challenges like the Magnolia Ridge site and other locations along the Manchester Road corridor that presently contain older and less desirable commercial developments. From a market prospective, this would include West County Center. We believe that West County Center will be the subject of some type of redevelopment proposal in the future, so it is relevant to understand how current markets are likely to affect it and recognize that multi-family development is likely to be a component of any redevelopment plan.

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Retail Real Estate Market

Retail development is rapidly changing. The advent of online shopping has impacted the need for the large retail spaces (particularly department stores) that have driven the retail real estate markets of the past. Nationally, overall retail vacancy has begun to come down from rates in non-growth metro areas (like metro St. Louis) that in 2018 were approaching 15%+. In many cases, the reduction in vacancy has been the result of retail square footage being repurposed for other uses. In other instances, space in better-quality retail centers and buildings have ‘backfilled’ with new businesses because, in most metro markets, new development has ground to a halt except in very select locations and for specific users. We can not predict where these trends will begin to appear, although there are a few examples showing up in the metro area such as Bass Pro’s Outpost store in Sunset Hills and the Walmart Neighborhood Markets in St. Charles County, The Bass Pro Outpost is a redevelopment of an older shopping center built in about 1997.

People do not want to purchase some items online. They want to see and feel some things before they buy. General merchandise and department store retailers will develop smaller store formats that will begin to be more like “showrooms” and not everything will be stocked at the store. Consumers will be able to see their options and touch, see, and/or feel the merchandise and their selection will be sent home or delivered to the store. Amazon’s department store is based on this idea and Best Buy has been using it for some time. In some instances, the store floor area will be reduced, and the remaining space will become a “last mile” warehouse for some popular items. In this case, pickup while shopping in the store may be possible for some items. This represents the new retailing buzzword called “omni-channel” retailing. Where the bricks and mortar, online, and delivery to the customer are operating in tandem.

Some retailers have tried other options. Target has developed some “urban” stores that are much smaller than a typical Target (about 40,000 square feet) and as recently spring of 2021 indicated that they are rapidly expanding this concept. Consistent comments in retail trade industry forums/publications from Macy’s in later 2021 and again early this year has indicated that they will begin shedding their big-box mall locations in favor of stores that will be free-standing or in smaller strip center locations where they never would have gone before and that this transition would begin this year. For most retailers, operation in a mall is an expensive proposition, if for no other reason, due to the added cost of the common area maintenance (CAM) charges that are associated with these locations.

Essentially, retailers have learned that they don’t need mega-stores, if they have their online market act together. Based on our data sources, visitor traffic to shopping centers, some malls, and other retail-centric locations for 2021 are already near 2019 levels. Visitation through October of 2021 suggests that 2019 visitors (and potentially sales) are likely to at least equal, if not exceed, 2021.

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This is indicative of the see/touch/feel demand for certain types of merchandise. But this does not mean that malls will survive as we know them today. Virtually in every metro-market there were too many malls constructed and the non-growth markets like Saint Louis have been the most impacted. The re-creation of malls in Chesterfield, Crestwood, and St. Ann all represent approaches to solving the declining or dead mall scenario. Except for Northwest Plaza, residential development is a component of these projects and will be at greater density than is found elsewhere in the community.

Des Peres has other sites along the Manchester Corridor where redevelopment of an aging shopping center could include a mixed-used development or multi-family residential on scale and density smaller than the proposed Magnolia Ridge project. In this concept, the ground floor area would have shop and restaurant space with multi-family (or office space) on the upper floors or the project would be exclusively multi-family. This concept was discussed during the process of development of the current Comprehensive Plan.

Office Real Estate Market

In a previous real estate market world, the Magnolia Ridge site, West County Center, and some of the potential commercial in-fill locations on Manchester Road might have been candidates for office development. Offices are great supporting uses for retail establishments because they bring workers and visitors to the area. The conversion of department store spaces to office space at Northwest Plaza fueled the demand for the retail and restaurant development that exists and is thriving there today.

The COVID 19 pandemic derailed what was already a soft office market in metro St. Louis. Office space in the U.S. continues to have significant levels of vacancy and a relatively depressed foreseeable future as a result of the COVID 19 pandemic and corporate downsizing. In many instances, this downsizing is the result of employers' discovery that certain employee functions can be conducted via remote working without impacting productivity. Therefore, the need for office space they currently have or had is resulting in lease renewals for less space or sublet of existing space.

While some of this "downsizing" was going on pre-pandemic, the COVID 19 situation accelerated this trend and it became somewhat reinforced by the inability for some workers to come to an office because of mandated closures, child care and schooling situations, or from concerns over using public transit. Many surveys and interviews have been done of both employers and employees to gauge the desire to come back to the office by either party.

Now that COVID 19 and its variants have begun to pose less of a threat, corporate mandates to come back to the office are beginning to increase occupancy. However, general office vacancy at the

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national level is higher than ever in many metro markets. The highest occupancy levels are typically in niche areas of the market such as medical office space, back/office support (although some of these activities are being conducted remotely), and other tenants that require significant computer and phone support, or other unique office situations.

Much of the new construction for office space in metro St. Louis was started in 2019 and much of this was paused in 2020 due to the COVID 19 outbreak. If we look at some of the larger office developments around the metro, it would be noted that most of it was constructed for specific users particularly for medical clinic and outpatient facility uses.

Of all commercial real estate markets, the office market presents the most cloudy and unpredictable picture. However, for the St. Louis office market, like the retail market picture, the region is hampered by the lack of population and business growth. The region has grown certain sectors like bioscience, medical research and support, and technology but it has been offset by our losses in other sectors such as regional or national corporate headquarters businesses and portions of the manufacturing sectors. We aren't growing businesses on a net-new-jobs basis and therefore our population isn't growing. Couple these factors with others like job losses due to technology and corporate downsizing and the region has a recipe for slow growth that will continue to hamper both retail and office markets.

RECOMMENDATIONS

General

We recommend that the City consider permitting multi-family residential development for several reasons. However, we believe that where it might be located and how any development is enabled should be subject to the use of Planned Development procedures so that each development is subject to its own unique site plan and conditions. In addition, we believe multi-family development should be limited to the Manchester Road corridor and only on parcels fronting the roadway where the building(s) can be placed closer to the street with appropriate buffers to any existing single-family development. Height restrictions on some sites may be more important than others. The discussion that follows in this subsection will provide further elaboration on our recommendation.

The City's population has grown between the 2010 and 2020 Censuses. The 2010 population of the City was 8,373 persons while the 2020 population is 9,193 persons, an increase of 820 or 9.7%. St. Louis County grew by only 0.005% (less than on-half of one percent) over this same period. The City's growth is an indicator of the replacement of older members of the community with younger families who are able to afford the higher value housing that the City has to offer. This likely means that the City lost some of its older residents to other parts of the metro area with the kind of low-

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maintenance housing stock (condominium, villa, townhouse, luxury multi-family) that is not available in Des Peres.

Population growth has a direct link to maintaining a healthy retail, service, and restaurant land use and revenue base. The City is surrounded by Kirkwood to the east and south and Creve Coeur to the north. Each of these cities have a more diversified housing stock. These communities have grown as well. Therefore, one good reason to consider permitting multi-family development is to accelerate population growth and thus support of the City's retail/service/restaurant commercial land uses.

It should be noted that a series of factors about a community (in addition to some of those discussed previously) drive the type and quality of multi-family developments and their unit size, amenities, and rent structure. The City's proximity to major white-collar employers, health care facilities, shopping, services, restaurants, and highway access virtually assure that any multi-family development will be of high-quality and attract good citizens.

Lastly, as noted previously, we are fairly certain that West County Center will, at some point, be the subject to a redevelopment proposal being brought to the City. We also believe that multi-family development is very likely to be a component of such a proposal. Office development will also be involved in what will be proposed to be a mixed-use development. Therefore, the Magnolia Ridge project provides a reason to visit this subject for both present and future development scenarios.

Zoning Accommodation for Multi-Family and/or Mixed-Use Developments

Unless a community's development patterns represent an urban environment, we believe that, in suburban settings, planned development regulations are the appropriate way to provide for such developments. Planned Development ("PD") regulations are really an evolution of a late 1960s and 1970s zoning invention/tool called "planned unit development" (PUD). These regulations were used solely for residential development. Today's PD regulations are almost always structured along the lines of those that were developed for the Des Peres zoning code.

PD regulations are intended to:

- Encourage development on sites that have challenges that make development that would be otherwise permitted in conventional district difficult or represent an underutilization of the property.
- Facilitate projects that are redevelopment of existing uses.
- Encourage density and innovative planning as well as higher-quality architecture and site amenities such as landscaping and buffering.
- Provide fairly wide latitude on the part of the approving entities (the Planning and Zoning Commission and the Board of Aldermen) with the site plan review and approval process

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establishing most of the parameters of the development. relative to building height, density/site coverage, etc.

- Be a rezoning to one of the PD designations wherein the zoning is applicable to the site, the development plan, and any variances or conditions that are placed on the development during the review and approval process.

A project approved via PD regulations in one location does not set a precedent for another location.

In the case of the City's code, the PD-R regulations were structured for project approvals that are purely residential in nature while the PD-MXD regulations envisioned projects that combine a mix of uses that can include retail, service, and restaurant commercial, office, and housing uses. However, multi-family housing is not included. In addition, the housing types permitted (townhouse, villa, or zero-lot line attached units) are restricted to owner-occupied dwellings. Also PD-MXD projects have a 10-acre site threshold while PD-R and PD-C districts require at least 5 acres. These acreage requirements were set higher than normal largely to limit where these regulations could be used and, to some degree, almost discourage their use. In addition, specific locational parameters apply:

1. *Planned Development—Residential (PD-R): Planned developments **involving owner-occupied residential single-family** uses only on sites as identified for Planned Residential development in the City's Comprehensive Plan or on sites with frontage to an arterial roadway.*
2. *Planned Development—Commercial (PD-C): Planned developments involving retail and office commercial uses **only and located along and with frontage to Manchester Road.***
3. *Planned Development—Mixed Use (PD-MXD): Planned developments **involving owner-occupied residential uses and limited commercial uses and only on sites located along and with frontage to Manchester Road.***

One scenario for permitting multi-family residential use that has been discussed with City staff would involve an amendment to the provisions of the C-1 zoning district that covers much of the Manchester Road corridor. Multi-family uses would be permitted by site plan review adopted by ordinance in that district in locations west of Ballas Road. We are not in favor of that approach.

First of all, it doesn't represent the locations (albeit limited ones) east of Ballas Road where a smaller scale mixed-use development might be appropriate. Also, the City's zoning code for identifying permitted and conditional uses is based on the North American Industry Classification System (NAICS). Introducing multi-family uses as conditional uses in the C-1 or C-2 districts presents potential conflicts in the intended use of this land use designation system. We believe it also impacts the ability to defend decisions involving approval of multi-family or mixed-use developments combining commercial and multi-family uses. If the City wants to consider multi-

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family uses either alone or in combination with commercial uses it should use the PD regulations that it already has and modify them accordingly.

PD regulations are intended to be unique to each site and therefore many typical “hard” development standards are usually not part of PD regulations, or the regulations allow for variance or waivers of threshold standards as part of the review process. PD regulations really amount to negotiated zoning that account for sites that have challenges and thus cannot be developed based on conventional standards. Alternatively, they are often used in situations where property is being redeveloped and the standard use regulations used that enabled the original development don’t fit the intended reuse.

Our recommendation is to update the PD regulations to provide for multi-family residential developments as follows:

- Permit multi-family development in PD-R and PD-MXD districts but limit the location for multi-family or mixed-use developments that involve multi-family uses (with retail, office, service, or restaurant uses) to locations within the C-1 and C-2 districts that have frontage to Manchester Road. This would require adding language to 404.050 D.
- Alternatively, the PD-R regulations could be retained with the limitations as written (except for site size as noted below). An additional distinction could be made by adding a PD-R-MF regulation that would be specifically for permitting multi-family developments with the same locational criteria as noted above.
- 404.050 F should be revised to allow a minimum site threshold of 5 acres for all PD districts (our research indicates that any parcel that might be appropriate for development of a PD-C or PD-MXD project (including one with multi-family units is at least 5 acres, (i.e. Colonnade Center and maybe Des Peres Commons). The existing 10-acre threshold is too high but was set with the idea that this zoning tool should only be used for larger projects.
- For proposals fronting Manchester Road either as PD-R proposals that including multi-family uses and front to Manchester Road and/or PD-MXD, proposals including multi-family, also fronting Manchester Road we suggest that the density be controlled by the master development plan using various factors such as:
 - Ability to provide parking at appropriate ratios (1 per bedroom or 1.5 per unit are typical) with the option to require a parking study by a City-approved traffic engineer (at developer cost);
 - Provision of site landscaping and buffers that create a pleasant environment for residents and neighbors, again subject to review by a City-approved landscape architect (at developer costs);
 - Building setbacks from any adjacent single-family residential development of not less than 50 feet measured from any building face (including parking structures);

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- Stormwater detention that meets MSD requirements and any additional City requirements;
- Heights limitations west of Ballas Road of not greater than 5 stories (except within the C-2 district (West County Center) where height would be regulated via plan review) and not more than 3 stories east of Ballas Road measured from the first floor for occupancy at the facing street (a parking garage under the first floor of the building would not count in determining building height). *Note that the residential and office buildings proposed in the Chesterfield Plaza plan are 8 stories.*
- PD-R development including multi-family development would not be subject to the density requirements of 404.050, G, 3. As noted above, Maximum density would be determined via site plan review. The same would apply to PD-MXD proposals.
- Consideration should be given to separating the PD-R regulations keeping the existing regulations for the types of uses envisioned. A new PD-RMF (Planned Development-Residential Multi-Family) would apply to proposed traditional multi-family developments.

Magnolia Ridge Project

The proposed Magnolia Ridge project provides a perfect example of a site where PD regulations can bring what appears to be a high-quality project to a location that would have difficulty for development of many other uses. Based on City staff review, it represents a project that makes good use of the site which has been vacant for many years. The staff review and our review indicates it could meet PD-MXD concepts and requirements with modifications as we have suggested above.