WHAT’S NEW FOR
ST. LOUIS DEVELOPMENT
What development trends are we seeing in St. Louis?

Mark Kornfeld: In retail, I think the biggest issue we’re seeing is how retailers are battling e-commerce. When you talk to the various retailers, they are equally as focused on the quality of their real estate as they are on their e-commerce. I think it’s no coincidence that the retailers you see growing in our market right now are the ones that are offering products that don’t compete with online sales. It’s folks like Starbucks, QuikTrip, Planet Fitness, and Mattress Direct that are expanding.

David Biales: I would say in the St. Louis office sector, we’re seeing much more user-driven development than we have in the past. You’ve got your build-to-suit developments, where the construction is customized for the lead user. Examples of that would be Bunge’s new facility on Highway 40 by The Opus Group. Express Scripts continues to grow at NorthPark, which is a Clayco development. And then you’ve also got your corporate-owned facilities. RGA, Centene, Mitel, World Wide Technology. I think we’re starting to see that larger companies are becoming more strategic about their real estate needs and how they grow. Outside of St. Louis, JLL has helped companies like Navistar, Zurich and Farmers Insurance construct new facilities to tailor their operations, culture and brand.

Garrick Hamilton: I always enjoy hearing what Mark, Dave and other members of the brokerage community and also what David on the legal side are seeing throughout the region. They get to see development by involvement with multiple clients, goals and businesses. Working in-house at one firm, I see things throughout the development process, but tend to be focused on delivering our projects for our investors, which can occasionally result in a limited view of the market, mainly tied to the submarkets in which we operate. From our perspective, the trends we’re seeing is a flight to quality of life across those sectors where we operate – residential, office and retail. It’s not enough just to develop a retail shopping center, a residential community or an office building. Projects have to tie into other aspects of the users’ lives and tailor to the manner in which its occupant are living their lives in an effort to improve the quality of those lives. Residential communities have to consider how its occupants shop, live and work, because they are likely doing all three at some point. The same is true for retail and office projects. They have to consider how the end-user is living and doing business.

David Richardson: Developments are no longer viewed as “stand-alone” projects, they are tying into the larger community. A great example is The Grove; you’re going to build a new building, you’re going to do an art walk along with it. You see amenities that tie the land to the structures to the people, and that’s smart of developers. You can’t just build a beautiful building anymore, it has to interact with its surroundings. That can be a challenge in cities with historic architecture. I do a lot of redevelopment work, and so I see the difficult sites now being tackled. We’re moving on to the larger sites, such as with the Federal Mogul site and what Lawrence Group is trying to do there. You see guys out of Dallas wanting to do the Jefferson Arms. You have the Railway Exchange contract with developers looking to do that large development, and those are all going to be mixed-use developments. A
lot of large difficult sites are finally being tackled.

**How has e-commerce changed the development world?**

Mark Kornfeld: E-Commerce has caused retailers to really rethink how they operate their brick and mortar. We have recently seen retailers, such as Sports Authority, closing their doors due to the explosion of the e-commerce sector. Brick and mortar real estate will never leave, I feel it will continue to operate just at a smaller footprint. Developers around the country are focusing efforts to build shopping centers around users that are not as threatened by internet sales. Developers are focusing efforts on shopping centers that contain grocery stores, fitness centers and restaurants now more than ever.

David Richardson: For millennials, I think a good example is at @4240 in Cortex. It’s just amazing. It’s a totally different style of office ... it’s more like you’re in a student union. So it is very collegian, and it’s as if the office building has become the coffee shop. The development feeds the culture — if you need a break or need to bounce some ideas off of someone, you go hang out in the hallway at the common desk. It’s a great atmosphere. It’s what a well-planned development is supposed to do.

Garrick Hamilton: And @4240, it’s not just millennials that are buying into that. There are a number of professionals of all ages and experiences flocking to similar settings both in CORTEX and downtown.

David Richardson: I’m there and I love it. Who doesn’t love being able to go upstairs and grab a beer at Venture Cafe? Or play ping-pong? Every day, there’s a different food vendor upstairs. Or there are food truck days. I think the millennials are demanding a lot more amenities and a new way of life, and I think we’re all benefiting from what that creates. I really enjoy being in that building.

Garrick Hamilton: Millennials, in my opinion, are looking at real estate as a service industry, not an investment. They aren’t really looking to own. That’s most noticeable in residential, where the multifamily, non-condo, market is especially strong in St. Louis and elsewhere. They want the full package of lifestyle services from beginning to end. They want to come home and not have to worry about maintenance, they want the concierge and security, they want a workout room, and owning is really not something on their mind. I think it is also partially related to the limited growth we’ve see in this and other Midwest markets from a per-
e-commerce is affecting the retail sector, but it has also catapulted industrial distribution development. Amazon had not been in our market previously. Last year they leased 1.5 million square feet over two facilities in the Metro East and that drives other ancillary businesses.

That is just one example, but I’d say that the industrial development has been the biggest benefactor of e-commerce so far. Sounds like retailers are finding ways to adapt their real estate to the buying habits of a more sophisticated consumer.

David Biales: Mark touched on how e-commerce is affecting the retail sector, but it has also catapulted industrial distribution development. Amazon had not been in our market previously. Last year they leased 1.5 million square feet over two facilities in the Metro East and that drives other ancillary businesses.

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David Biales: I was driving to a meeting the other day and saw that Club Fitness was the end-cap user at one of the outlet malls in Chesterfield. It kind of looked out of place, but the strategy makes sense.

Will the large amount of developments competing for public money end up stunting the growth of the region?

David Richardson: No, but there is certainly a backlash against incentives now. The public assistance that’s given is either through tax incentives or tax credits. Tax incentives are derived from the project itself, so I don’t think there’s competition or a limited pie for those incentives. But I do think there’s a lot more scrutiny of them, and there should be scrutiny of them. There should be an analysis to ensure that the city or the community is getting the best bang for its buck, and the development’s getting the least amount necessary to make the project happen.

Garrick Hamilton: This is incremental revenue that we’re talking about. This is not revenue that would be available to taxing districts but for these developments, so I don’t think the number of projects will stunt overall growth... quite the contrary. However, I do believe municipalities have generally done about all they can to help the market compete. We need to start looking at the incremental revenue being generated by the state from the entrepreneurial companies, startups and incubators in our community. This is revenue that is going to the state and a portion of it needs to be made available to the community that invested in those incubators and, in some limited fashion, returned back to the incubators themselves. Whether you identify a component of the income or sales taxes that are generated by those companies over their lifetime following their formation at T-REX, CET or similar home, the greatest opportunity would be to take that incremental revenue and put it back into those business incubators. It will result in an economic and job development “spiral effect” in the right direction.

David Biales: I think if you look around downtown, a large percentage of the completed developments have used public money, but not all. What continues to impress me are the few developers that pride themselves on not using public funding, or tax incentives. Brian Hayden with Brandonview LLC comes to mind. If you just look in the core of downtown, he’s probably completed a handful of developments. And he’s been very successful with taking old, dilapidated buildings and converting them into residential space. It’s refreshing that there are projects and developers out there that don’t necessarily need public money.

Mark Kornfeld: I think the biggest thing is what Garrick said, it’s the “but for” factor. The general public is always so quick to knock the public subsidy, however so many of the fantastic projects would not happen if it wasn’t for the subsidy that is offered. The price of land and construction both continue to increase in our market. There has to be a subsidy or the developments simply will not happen.

Industrial construction had a record year last year. Will that drive development in other product types?

David Biales: I focus more on office, but I cannot point to a specific example where industrial construction has driven other product types. I think what it has is done is validate St. Louis as a distribution hub. So I mentioned Amazon earlier, recently occupying a very large block of space in our market, and people tend to take notice if a company of its stature leases 1.5 million square feet. Not only will it drive other ancillary uses around it, but it also attracts out-of-town money from domestic and foreign investors.

Garrick Hamilton: Amazon’s Edwardsville fulfillment center is expected to bring 1,000 or more new jobs. And that’s just one of the industrial projects anticipated in the St. Louis Metro area. That will obviously drive the housing and retail markets in those neighboring communities. It can’t do anything but help peripheral businesses as well.

Mark Kornfeld: On the retail side, it’s exactly what Dave said. It’s going to drive ancillary retail uses. Developers will begin to build service-oriented developments near the industrial growth. You will see restaurants, gas stations and other service-oriented retailers trying to take advantage of the captive audience the warehouse development brings.

David Richardson: I represent the developers of the Fenton Logistics Park, which is the former Chrysler plant, and
it’s the exact same thing. You have a lot of vacancies in what were successful retail and service businesses, and now it’s being redeveloped into industrial. However, part of the project is designed to be flex office space and office buildings up front. The mixed-use can stimulate retail and hotels. Industrial can be the tool that brings it all back.

All of your organizations work in multiple cities across the country. What are some best practices you’ve seen in other similar markets that would help drive development in downtown St. Louis?

David Biales: I wouldn’t say it’s a best practice, but a trend we’re definitely seeing in other markets is companies are relocating to where their workforce, or millennials want to live. We’re seeing this across the Midwest. ADM in Chicago, Northwestern Mutual in Milwaukee, Salesforce in Indianapolis, Bridgestone in Nashville. I’d certainly like to see more of that in St. Louis. Some of our bigger companies need to step up and relocate to downtown. There will always be a need for suburban office space, but I think it is very important to focus on our downtown core because it has so much potential. Those are the statistics in which St. Louis is often compared on a national basis. Maybe if a few local companies take the lead, others will follow, ultimately attracting headquarter relocations from out-of-town companies.

David Richardson: There are hopefully both, employers and the residential. I saw in the Business Journal that SanSai was going to close because there’s not enough nighttime business. Other successful downtowns are 24/7, right? They have that density that could support a restaurant like SanSai having a great lunch crowd as well as an evening crowd. I think it’s important to continue to get residential developments and people living downtown. What I’ve seen in other cities that we haven’t done quite as well is that our development efforts are spread out. We have maybe a condo project six blocks this way and then six blocks that way, so we don’t have that critical mass. A retailer has trouble having enough business at night because you’re six blocks this way and I’m six blocks that way.

Mark Kornfeld: We actually represent SanSai and the owner wanted desperately to stay downtown, but the dinner sales just aren’t there. It’s real struggle if it’s just, “Hey, you’re going to do a great lunch and it’s going to be a ghost town at night.” The only way that business model works is if a tenant can negotiate rent that reflects only being able to capture a lunch time crowd.

David Richardson: Another trend that we see, especially in Denver where we have an office is public-private partnerships. Denver’s doing a really good job at that. They’re going to do a P3 for their airport, which we could possibly consider here. They did a P3 for their Union Station and their light rail. In St. Louis, 300,000 people can’t support paying for the redevelopment of its own airport or other necessary infrastructure, and looking at creative ways to doing a public-private partnership where you actually would privatize it and do a lease is something that other cities have done that I’d like to see St. Louis start to consider.

Garrick Hamilton: First and foremost, the threshold issue is personal safety and security. That has to be addressed. If you aren’t safe and secure downtown, you’re not going to have people from outside downtown bringing their business or families here. There’s too many other places they can go. However, specific to your question on best practices of a municipality, what we’ve seen successfully implemented in other markets is the creation of an objective standard by which to deliver a development incentive or program and tailoring that standard to a public purpose identi-
The price of construction continues to go up. It becomes a point where deals just don’t work out and it doesn’t make sense for developers to build. So if the cities and municipalities want to continue to grow, there has to be give and take on both sides, otherwise it will just remain stagnant.

MARK KORNFIELD,
Sansone Group

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Garrick Hamilton: Yes. And I think that’s going to be shown with Ballpark Village. However, I can tell you it’s still incredibly difficult given the costs associated with ground-up construction, and land value is not the primary factor. Even at a great site next to Busch Stadium, you’re still going to see construction costs that are roughly two times the value of that asset on the day it opens. Quite simply, you’re losing 45 to 50 percent of your investment the day it opens. No one invests a dollar if their proforma anticipates getting 50-cents back. This gap can be overcome with development incentives, and I think it will start to happen more often for unique product like Cupples, 700 Market and BPV. Unfortunately, the greatest tool for overcoming that gap in downtown St. Louis is historic tax credits and you obviously can’t use those with new construction. The gap would also be significantly benefited by the availability of those state incentives we previously discussed... the city is already doing almost everything it can to try and bridge that gap. It’s going to have to start coming from other places.

David Richardson: Costs are high but rents are low. So the other way to fill that gap is to create more demand downtown, then you can charge higher rents. There would be less of a gap, or your value will be more.

Garrick Hamilton: We’ve been driv-
ing that as much as tenants and the market will permit. We’ve seen, in our last two projects, higher and higher per square-foot rents made possible due to the strong commitment of our tenants to downtown, but the investment performance is still tight due to residual values. The next project at Cupples would require even higher rents, and it’s hard to drive rent growth that quickly. It will improve over time. But I’d say it’s still a few years off.

Mark Kornfeld: I think one of the biggest positives that we have downtown is Ballpark Village, however that can also be a big negative for new construction in the retail sector. Restaurants, bars and retailers are very leery about investing to heavily in downtown because they don’t feel like they can compete with the success of Ballpark Village.

Garrick Hamilton: On par with that has got to be MX District and what’s happening around the convention center. Those guys are making money at night, but then they’re right next to hotel and convention business.

David Biales: As far as ground-up construction, I can’t say that downtown St. Louis needs a newly-developed office building right now, which adds more product on the market. Don’t get me wrong, a new shiny building would look great in the downtown skyline, but we already have some very large buildings down here that are vacant or will be vacant. The AT&T building and Railway Exchange have been hot topics, which combine for over 2 million square feet of office space in our downtown core. We have some great buildings with architectural significance that I would like to see being used in the right way. It’s already started. As I was walking down Olive, from my office to this meeting, almost every single building on the street has recently been renovated, or soon will be. From east to west, the LaSalle Building, Mercantile Library, Millennium, Railway, 705 Olive, Chemical, Arcade, Paul Brown and even this building, The Old Post Office. And that’s just one street. JLL has created an interactive downtown development map, which identifies well over $1 billion of new development, including renovation, totaling more than 20 projects. I don’t think a lot of people realize how much activity is going on downtown.

Garrick Hamilton: It’s really about product type. The tenants that came to Cupples 9 wanted brick and timbers around them. But some tenants want steel and glass. And neither is wrong ... neither is right. It’s what that user wants. Can I recruit a business from Chicago and somehow come down here to a Cupples 9 or 555 Washington? Yes, but maybe they want a new brick and steel building. The tenant and its goals are everything in this submarket.

David Richardson: There’s a lot of hotel building going on. I think it’s about broadening the market, broadening the different brands, appealing to the millennials, so we have a lot more boutique hotels with an online presence here. The only one downtown so far is the Magnolia, but you have the Gils proposing one, you had Bob O’Loughlin at Union Station go with a Curio brand. It seems to me that they’re more than just a hotel, they’re a destination place where you go to drink or you go to have dinner. So it’s not just out of towners staying there, it’s somewhere that we would all go to on a regular basis because it’s cool and it’s hip and it’s a great place to be. I hope that Cortex actually is the birthplace of a lot of companies that will then grow and expand, or move downtown into some of these office buildings that we want to fill up. They’ll bring in more business travelers and recruit professionals from out of town, and they’ll bring friends and families visiting and creating more hotel demand. Once those companies get a little more mature, they can move into additional square footage. I think that’s a good incubator for downtown.

David Biales: I see Cortex as being the connector to more development downtown. I think they’ve done a phenome-

Garrick Hamilton: I’ll refer back to the earlier comment of flight to quality of life. If you’ve got safety and security, those projects are going to unquestionably be successes in downtown St. Louis.

What developments will have the biggest impact on St. Louis over the next five years?

David Biales: I think in the city, you have to talk about Cortex. It’s impressive that other JLL offices across the country are talking about Cortex as their example of an innovative collaboration community. It’s been wildly successful. It’s already spurring other developments around it like the Armory, the Foundry and more mixed-use residential and retail in The Grove – which has all the ingredients to be the next Delmar Loop. So I think we’re just now seeing the beginning of its ripple effect.

Garrick Hamilton: I think the easy
do you see the trend for mixed residential so prominent in new develop-

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answer is NGA, and that’s incredibly important. And I appreciate the planning efforts the city is currently going through not just to keep those jobs in the city and move to the north side, but also to try and keep some of the economic opportunity associated with that project for the surrounding neighborhood. Looking beyond the easy answer, I would suggest looking at what Wash U is doing north of Delmar. We have a joint venture there with Clayco Realty Group and the new apartments east of Delmar Hall. The investment we’re seeing by Wash U north of Delmar seems reminiscent of what they did 10-15 years ago in The Grove, and we’ve seen how transformational that has been in a short time.

**David Richardson:** Washington University’s done it, BJC’s done it. And now SLU is getting in the act at Chouteau and Grand … that’s going to totally transform that area. And you have to throw in soccer because that’s a highly underutilized site that now is going to be put to an active use and extend downtown.

**Garrick Hamilton:** With the addition of MLS, Clark Avenue is going to be one of the best sports entertainment venues or avenues in the United States. It’s phenomenal for that part of town. I really hope to see it.

**Mark Kornfeld:** We were just commenting in our office about the Braggin’ Rights Missouri-Illinois basketball game. Ten years ago, everybody went to Union Station before the game. That was the place to be. I would love to see the MLS project happen because it will be an enormous boost for Union Station. I truly think you would see Union Station return to the huge success it was just a short time ago.

**What about out west?**

**David Biales:** For the city, I say Cortex. In the county, I think another obvious one is the Centene development and the impact that’s going to have on Clayton. That’s 2,000 jobs in total, half of those will be new to the state. I think they’re our biggest success story right now in terms of an organically grown company in St. Louis. They’re driving our office market, the amount of space that they’re absorbing, in and around Clayton or even out west, it’s pretty phenomenal.

**Mark Kornfeld:** For retail, one of the most intriguing things that we’re watching is the direction of our malls. There are no larger pieces of real estate in the retail sector than shopping malls. One property that we are working on right now is Crestwood Mall. It will be very interesting to see how malls such as Crestwood and Chesterfield get repurposed over the next handful of years.

**What about Chesterfield?**

**Mark Kornfeld:** Obviously the outlet malls in Chesterfield have had an enormous impact on Chesterfield and Chesterfield get repurposed over the next handful of years.

**Garrick Hamilton:** Pfizer’s regional headquarters location and Bayer/Monsanto’s investment in that area is incredible. Those institutions will or have invested significant amounts of money and moved employees to St. Louis and it speaks volumes to the combination of enjoyable quality of life at an affordable cost of living in our region.