ADVERTISING SUPPLEMENT

TABLE OF EXPERTS

ST. LOUIS BUSINESS JOURNAL

COMMERCIAL REAL ESTATE DISCUSSION

SPONSORED BY

placevalue

St. Louis Bank

Lawrence Group

Carmody MacDonald
Attorneys & Counselors at Law

CliftonLarsonAllen

NAI DESCO
COMMERCIAL REAL ESTATE SERVICES, WORLDWIDE

SpencerFane

MEET THE EXPERTS

DAVID BUSKER

David Busker is responsible for leading PlaceValue's growth and management of the St. Louis market. Busker brings strategic leadership and commercial real estate acumen to PlaceValue in serving clients needing comprehensive assistance leading their office and industrial workplace transitions. Working closely with PlaceValue's team of subject matter experts, Busker assists clients in planning, procuring and managing every step in the commercial real estate supply chain. With deep experience in all aspects of the real estate industry, Busker has led transactions totaling over $350 million in commercial real estate acquisition, financing, leasing and development. Busker is a past president of the St. Louis Association of Realtors - commercial division and board member and past president of the Saint Louis Metro Chapter of the CCIM Institute. He also serves on the board of the ALS Association - St. Louis regional chapter.

SHARON HENDERSON

Sharon Henderson, associate director, oversees Lawrence Group's corporate interior design studio. She has more than 25 years of project management experience and has designed and programmed more than 2.75 million square feet of corporate space. Representative clients include Maritz, Stifel, Northwestern Mutual, Scottrade, Ralcorp, XTRA Lease and Paric Corp. Henderson received her bachelor of interior architecture degree from Kansas State University and is certified by the National Council for Interior Design Qualification. She is the co-author of "Leading Positive Corporate Cultural and Design Change" (Facilities Management Journal, March/April 2015) and a member of Commercial Real Estate for Women and the International Facility Management Association. Henderson is also a stockholder of Lawrence Group.

CARL CONCELLER

Carl Conceller, a principal at NAIDESCO, represents buyers, sellers, landlords and tenants in the acquisition, disposition and leasing of commercial property. Conceller has 37 years of experience, including 10 years with a national design/build firm with nationwide responsibility, five years of consulting and 25 years in brokerage. He has the knowledge, skill and experience to assist his clients in the most complex transactions. Conceller holds the prestigious designation from the Society of Office and Industrial Realtors as both an office and industrial specialist. He is knowledgeable of office, industrial and retail properties, but focuses on investment and 1031 tax exchanges. In the past 11 years, Conceller has completed over 300 transactions totaling 4.2 million square feet, valued at over $325 million.

LUKE POPE

Luke Pope is a tax principal with CliftonLarsonAllen in St. Louis. He has more than 10 years of experience advising clients in a wide spectrum of industries, with a heavy emphasis on assisting closely held businesses and their owners with tax planning, consulting and compliance. Pope has also assisted clients in the manufacturing and distribution industries. His real estate experience includes tax planning, tax compliance, buy- and sell-side modelling and projections, consulting related to New Market Tax Credits and Historic/Rehabilitation Tax Credits.

KEVIN WILLIAMS

Kevin Williams' more than 20 years of legal experience enables him to provide a broad base of support to clients in areas of real estate, contract, private client and business law. Williams has extensive real estate experience, including experience in negotiating and drafting complex instruments, contracts, commercial leases, purchase and sales agreements, and contractor agreements. He represents landlords, tenants, developers, owners and institutions. Williams also has extensive private client experience and serves as outside general counsel to several corporations, LLCs and other business entities. He has successfully closed numerous purchase and sale transactions. William's extensive background includes negotiating and drafting shareholder, confidentiality and operating agreements for limited liability companies, corporation as well as non-competition and employment agreements. Williams joined Carmody MacDonald PC in 1997 and is a shareholder in the St. Louis firm.

THOMAS JERRY

Thomas Jerry is a business attorney with over 20 years of experience focusing on real estate issues and day-to-day legal needs of business entities and their owners. Since 2001, he has been a partner at Spencer Fane LLP, a Midwestern law firm with offices in St. Louis; Kansas City; Springfield, Missouri; Jefferson City, Missouri; Overland Park, Kansas; Omaha, Nebraska; Oklahoma City; Dallas; Colorado Springs, Colorado; and Denver. He regularly represents owners, developers and investors with respect to real estate acquisitions, sales, commercial and residential development and incentives, financing, construction and leasing (office, retail, industrial and residential). A resident of St. Louis City's 7th Ward since 1979, he was appointed by Mayor Francis Slay to serve on the board of commissioners of the St. Louis Housing Authority in 2006. He has served as chairman of that organization since 2009.

MARK MUESENFECHTER

A native of St. Louis, Mark Muesenfechter has served as CEO of St. Louis Bank since August 2012. Prior to that, he served as executive vice president and chief financial officer since the opening of the bank in 2005. Previously, Muesenfechter was senior vice president - controller for National City (formerly Allegiant Bancorp Inc.). He has nearly 30 years of experience in bank accounting and finance while serving in senior management positions with Bank of America, Nations Bank, Boatmen's Bancshares Inc. and Centerre Bancorporation. At Bank of America and Nations Bank, he was senior vice president - finance for the asset management division and private client group. At Boatmen's, Muesenfechter, a certified public accountant, served as vice president - director of accounting. Prior to embarking on his banking career, he worked for five years with the St. Louis office of Price Waterhouse.

ROUNDTABLE

Commercial real estate discussion

IS ST. LOUIS A GOOD INVESTMENT FOR COMMERCIAL REAL ESTATE?

Carl Conceller: Yes, the St. Louis region is a very good investment for commercial real estate. We have a stable economy and a diverse business environment with concentrations in medical research, financial services and agricultural and plant sciences. Investing in St. Louis offers a higher rate of return in comparison with the East Coast and West Coast for investment property. So there's a strong demand from not only local, but out of town investors which has created a scarcity of product.

Mark Muesenfechter: Yes. There's stability in our market that some other areas don't have, and St. Louis in particular has not been subjected to wide swings in CRE valuations that the East Coast and West Coast have historically experienced.

Kevin Williams: I'll add that our market is not overinflated and the fundamentals are here.

Thomas Jerry: Our central location is a big positive in terms of people investing in or purchasing properties, and the recent 7 million square feet of industrial space that's been added or will be added is a good indication of demand.

Carl Conceller: In comparison to other areas, St. Louis has very low cap rates. You're going to find a 150- to 200-basis point spread in those cap rates versus the coastal cities.

Luke Pope: And I think that's why you're seeing money come in from the coasts now to buy some of that property up because the cap rates are giving them a better return on their investments.

We see our responsibility as not only creating space that works for people, but helping with their bottom line as well.

SHARON HENDERSON,
Lawrence Group

Carl Conceller: There's a lot of capital on the sidelines looking for quality investments and places to invest. St. Louis is a very attractive community with a good, solid labor base and a well-educated workforce. And the investors that have come into the market in office, industrial and retail, have made sizable investments in our economy.

David Busker: One of the things that's changed in the last couple of decades is the institutionalization of real estate, because you see a lot of capital flowing globally now. Demand is local but capital is global. It's created real estate as an asset class, and now it's a mainstream class and structurally more attractive. I think it's made it harder to compete for local investors. So while there are always opportunities for people who can underwrite risk and see trends, I think it's a little harder for individual investors in local markets like St. Louis. They have to be a little more selective and things like infill redevelopment are where the opportunities are. The normal state of suburban sprawl through the 20th century has stopped. It's reversed and it is much harder to redevelop. So you see a lot of change happening within the investment community. That's what I did for many years, and you can see how it's getting much harder to find quality investments at risk-adjusted rates.

WHAT TRENDS ARE IMPACTING THE COMMERCIAL REAL ESTATE MARKET?

Thomas Jerry: Ecommerce is a huge trend. That's what's driving much of the growth in distribution space and investment in industrial properties. And it's changing retail at the same time. So there's going to be an adjustment over time with retail, bricks and mortar spaces, and an increase in close-in distribution facilities that will enable prompt delivery of product.

Carl Conceller: I think because of low vacancy, the other trend we're realizing is more speculative construction, especially in the office and industrial markets.

Sharon Henderson: In the Midwest a trend that is finally being accepted is that the younger generations are being embraced in the workplace, in a good way. Right now, we can effectively have up to six generations in the workplace. In the next 15 years we will be down to four. With that, the younger generations' impact will be more keenly felt. For example, in 2029, just 13 years away, that's one long lease agreement, the youngest baby boomer will be 65. All those left in the workplace will have grown up with technology. High expectations of what technology can do for an individual and a

CONTINUED ON NEXT PAGE

TABLE OF EXPERTS

CONTINUED FROM PREVIOUS PAGE

company's culture and bottom line will drive innovation that will afford changes in the way people work, so spaces will need to address those changes.

David Busker: We hear our clients say that work is what you do, it's not a place you go, and it's impacting how they use real estate. As the economy goes to a service economy, many times after labor, real estate might be the biggest cost on your income statement. Large companies have gotten very smart about how they procure real estate and manage the real estate supply chain, and now we see that in mid-market companies. They're getting much more specific about their needs.

Sharon Henderson: Through workplace strategies, we provide information to a client prior to site selection that helps them understand their space needs, from both a functional and fiscal standpoint. In doing so, the space design can enhance the work lives of the staff and profitably of the company. We work hard to understand how a client's company works from a flow and function standpoint as well as their unique cultures positives and challenges. Once we have this understanding and by using knowledge of successful workplace solutions, we challenge the client both from a design and function standpoint in order to help them achieve their predetermined success measures for their project. Our responsibility is to both create space that enhances work-life and help a company's bottom line.

Carl Conceller: Tenants are looking for more collaborative spaces with open environments and updated break or kitchen areas. When you talk about live, work, play environments, there is research on why people stay where they are. They have analyzed what it takes to retain a person in the workforce so they don't go somewhere else. As a result of this research, you are seeing a lot of design changes in the work environment. Companies have to start over and redesign the space to fit their needs.

The employment numbers are still strong, and they continue to grow. So I think that the experts tend to believe that will drive demand.

THOMAS JERRY,
Spencer Fane

Sharon Henderson: That type of design ties in with the generational influence that I mentioned earlier. For a while, office design swung very far left leaving everything wide open. That solution proved not to work all the time. Through research, we've found that balances between open collaborative spaces with places where you can have privacy are essential. By creating this balance in function, flow and aesthetics companies are not only providing a better place for their existing staff to work better, but using their space as a marketing tool to attract and retain new talent.

David Busker: There are millions and millions of square feet of office space that will have to be completely reconfigured. And it's no longer that people want to pay for 100 percent of a dedicated office when someone is there 20 percent of the time. How do you recapture the 80 percent? Can you give some back to the landlord? Can you re-task it and make it more produc-

TABLE OF EXPERTS

tive? Maybe it's a shared space and recapture some of it that way. It's really being dictated by cost and the demand of the labor force because it's a war for talent.

Mark Muesenfechter: Regarding our industry, we've noticed that millennials don't necessarily do their banking at a physical branch. With online banking services continuing to gain acceptance, a trend toward fewer brick and mortar locations is a real possibility.

Kevin Williams: We're also seeing a lot of infill commercial redevelopment that didn't happen a few years ago. Projects that are a little bit more complicated that require thinking outside the box, we're seeing people go in and pull together properties and redevelop them quickly.

Thomas Jerry: A good example of that is a project that one of my clients is doing in Iowa. It's an existing Target-anchored site that has been operational for many years, but there was some excess land. So, there was an opportunity to purchase that excess land and capitalize on the existing traffic and create value. I think that's what Kevin is talking about. It's putting additional investment into existing facilities.

WE HAVE REALLY HIGH LEASING ACTIVITY. DO YOU EXPECT IT TO CONTINUE?

Kevin Williams: I can tell you from our perspective, we are very busy. In fact, we're adding more attorneys to deal with the leasing demand. There's a large demand from national retailers, there's a large office demand. We see that trend continuing and anticipate being busy.

Thomas Jerry: The employment numbers are still strong, and they continue to grow. I think that the experts tend to believe that will drive demand.

Carl Conceller: We're experiencing significant activity in the office and industrial markets and we forecast continuing expansion. With the low unemployment rate, we're seeing a number of companies that are expanding or relocating to meet growing demand. Low vacancy rates combined with low interest rates continue to drive new development. There's millions of square feet of industrial and office space that are planned or under construction in Clayton and Chesterfield. Where in the past, developers were cautious in bringing new product to market, there's a confidence that there's going to be enough demand with high rental rates to sustain those projects. There's also several companies that have commenced construction on single-purpose build to suit projects to meet their corporate requirements.

Thomas Jerry: We see that downtown absorption is improving in recent reports. But that area continues to lag behind the other submarkets, and vacancies like the

CONTINUED ON NEXT PAGE

Projects that are a little bit more complicated that require thinking outside the box, we're seeing people go in and pull together properties and redevelop them quickly.

KEVIN WILLIAMS,
Carmody MacDonald

TABLE OF EXPERTS

CONTINUED FROM PREVIOUS PAGE

AT&T building are on the horizon. What will be the impact of that situation? Do you think that we'll be able to continue positive absorption in the downtown market?

Carl Conceller: AT&T is going to be a challenge because it was designed for a single entity, and it's going to have to be redesigned as a multipurpose building in a very competitive market.

▶ HOW ARE REGIONAL AND LOCAL CONSOLIDATION AND COOPERATION, OR MAYBE THE LACK THEREOF, IMPACTING PROSPECTS FOR COMMERCIAL REAL ESTATE HERE?

Thomas Jerry: I think the background for that question, and we probably all acknowledge this at the table, is that piracy is still a big issue. And if we're just moving existing tenants around, we're not really accomplishing anything in terms of the growth of the region. We need to do something to grow the pie rather than just continue to compete with one another. And, hopefully, the region can do something collectively and cooperatively to make that happen.

Carl Conceller: We did see cooperation on the National Geospatial Agency and that is a significant accomplishment for St. Louis to retain those jobs and technical skills. Obviously, there was some competition with Illinois, but certainly people on the Missouri side all collaborated to try to make their best proposal. So there was cooperation to retain a key governmental agency.

Thomas Jerry: That's a perfect example of how it can work to the region's benefit. But then I contrast that with the furor over the north-south Metro line, and suddenly we've taken a step backwards from the prior cooperation. We've got a lot of players. It would be nice if we could reduce the number of players and perhaps have more cooperative organizations.

Luke Pope: Just to echo his thoughts, in the accounting business, it seems like we're doing a lot of poaching because there's not a huge wealth of business expansion. We do have Cortex and all the start-ups coming out of that, but that's going to take time to cultivate that business. So, until we start getting some real population growth, I think the real estate market is going to kind of be what it is for now, and it's going to be hard to expand the downtown office market and absorb some of those vacancies.

David Busker: If we're going to grow for the region, it's going to come from the innovation districts where you have multiple parties' input: private, public, educational, health care. Cortex is a good example. It's on fire. It's maybe not creating Express Scripts and Centene type companies yet, but organically that is where it's going to come from, because every city in the country is fighting for the big relocations. If there's a big corporation with thousands of employees, everyone is throwing them incentives and giving them everything. We need to encourage innovation districts like Cortex and the plant science district because that's where people are attracted. And the master planning from the real estate perspective will get those people there.

▶ WHAT ARE SOME OF THE HOUSING TRENDS AND OTHER FACTORS THAT WILL IMPACT COMMERCIAL REAL ESTATE IN ST. LOUIS?

Kevin Williams: In the central corridor, we've seen a tremendous amount of construction and planned mixed use and multifamily housing projects, particularly throughout the Clayton and Richmond Heights area. In addition, we've seen quite an amount of senior housing facilities, either planned or under construction. I think that trend will continue. It may accelerate.

Carl Conceller: One point about the apartments that are coming to the Central West End, they are high-dollar. They're designed to attract empty nesters, medical and young professionals. They're at the higher end of the rental rates. Additionally, you're seeing a tremendous investment in senior housing – both public and private, with a variety of ownership entries.

▶ WILL WE BE ABLE TO FILL ALL THESE APARTMENTS? OR ARE WE JUST MOVING THE PIECES AROUND AND MOVING THEM CLOSER IN?

Thomas Jerry: The demand for rental housing is continuing to go up and home ownership continuous to go down. So at least for the near term, we're correctly addressing what's happening, and supply and demand is pretty much in balance. What I'm worried about is that we're not addressing the major need for additional affordable housing. There's not enough lower income, very low income, and workforce housing, and our region needs to address that need. We are developing a lot of multifamily, but it's all for the upper-end market as Carl pointed out.

Sharon Henderson: Senior living is one of Lawrence Group's fastest-growing markets. The baby boomers are getting older, but they won't necessarily be going into independent or assisted living at once. They will want options.

▶ HOW DOES THAT AFFECT THE SINGLE-FAMILY HOME MARKET?

Kevin Williams: There's a huge demand for this housing just because it hasn't been built. We've gone through the past 10 years where the housing starts nationally haven't been there, and so this is overdue. I also think you're going to see a lot of people moving around. I think people moving around is a good thing. I think that causes more jobs and more investment and more dollars to move.

Luke Pope: And there's been a recent uptick in millennials moving out of their parents' homes as well. There was a huge uptick in the fourth quarter of '15, and I think the trend is continuing with millennials moving out of their parents' home and into their first house.

Carl Conceller: But if you talk to somebody in the housing market looking for single-family housing, they'll tell you that it's hard to find. There's offers quickly coming on houses. So when boomers and people move out, it's opening up an opportunity for the next generation behind them. We haven't seen the new construction starts that we had five to eight years ago. There's new development but not at the volume that we've seen in previous years, but that may soon change.

Thomas Jerry: We've seen a huge conversion of single-family homes to rental properties since the downturn when there were a lot of troubled and foreclosed properties. We've seen both institutional investors and individuals purchasing single-family homes, and then transitioning them to the rental market. That's been a big change.

David Busker: In numbers, there are twice as many millennials as there are Gen X. So, you're going from people who had young kids now being in their 40s – 40 million of them – now you have 80 million people who are starting to have kids and it's going to impact housing big time. I think it affects some of the things we're talking about. Some of the statistics show that the suburbs aren't really dead, because now millennials are having kids and they may have been living in the city and all of a sudden school districts come back into play. They may be moving back toward the

TABLE OF EXPERTS

suburbs or the closer-in hybrids where they can get good school options.

Carl Conceller: We're seeing housing development in the Grove, Central West End and other parts of the city that are bringing new construction, rejuvenation, and in some cases, mixed-use development projects. They're contributing to the stabilization and enhancement of many areas. We're seeing similar activity in Maplewood and Brentwood.

▶ DAVID, YOUR FIRM FOCUSES ON WORKPLACE STRATEGY. WHAT DO YOU SEE YOUR CLIENTS' STRUGGLE WITHIN THE REAL ESTATE SUPPLY CHAIN, AND HOW ARE THEY ADDRESSING IT?

David Busker: Clients are having a complete picture of the workplace and not just one piece of it. They're no longer starting with a real estate decision and saying "Well, I had better get a bigger space just in case." In the past, they were forced to make decisions on rule of thumb and ended up with too much real estate, which is the biggest cost – reducing it by only 10 percent through proper planning can pay for the rest of your transition. But we're seeing them start to be more analytical about it and saying, "What are my needs and my budget before I pick the real estate?" They're getting ahead of it farther and that's a real game changer – rather than fitting yourself into a place, smart users are figuring out what workplace they need in terms of their business strategy, then adapting their real estate to fit the strategy and not let the tail wag the dog.

▶ MARK, AS A BANKER, ARE YOU SEEING AN INCREASE IN COMMERCIAL REAL ESTATE ACTIVITY? AND HAS THE INCREASED REGULATORY ENVIRONMENT IMPACTED YOUR ABILITY TO DO COMMERCIAL REAL ESTATE LENDING?

Mark Muesenfechter: We are seeing good activity in our market. Our loans are up 13 percent from a year ago and much of this growth has been generated from commercial real estate transactions. We are particularly encouraged by the diversification of this growth, which includes a wide variety of business lines such as the industrial/warehouse sector, hospitality, multi-family health care and retail/office space. As I'm sure you're aware, there's fierce competition in our market as banks compete for new business. As a result, under the right circumstances, if there is strong local sponsorship to a customer we know well, we will consider an out-of-market deal. We are also seeing some new construction, which is an indicator of an improving local economy.

▶ AND THE REGULATIONS IMPACT?

Mark Muesenfechter: I wouldn't say it's deterred our lending ability, but we do have to be more disciplined in our approach and there are some new regulatory parameters we need to take into consideration when making a new loan. Most recently, we now have to track High Volatile CRE (HVCRE) loans, which requires banks to allocate more capital to these types of projects, such as new construction and LAD, as they are considered higher risk. The HVCRE designation comes into play when owners bring less than 15 percent cash equity into a development project. In addition, portfolio positions are subject to real estate concentration thresholds as a way to monitor risk.

It's going to be a long time before we see high rates, and with that being said, I think U.S., banks are in pretty good shape.

DAVID BUSKER,
PlaceValue

▶ WHAT ABOUT TALK OF THE FEDS RAISING RATES? HAS THAT HAD AN IMPACT?

Mark Muesenfechter: I would not say it's really impacted pricing, but as long as the fed continues to send signals of future rate increases, we will continue to see borrowers wanting more fixed rate product with longer term maturities. Most of our fixed-rate lending is in the three- to five-year time horizon. With that in mind, we have finished second on a few deals to other competition as we were not comfortable with taking on the interest rate risk associated with a 10-year fixed rate deal. And then, naturally, we prefer a balance of floating and fixed-rate loans. Personally, I don't foresee a series of rate hikes any time soon. There's too much uncertainty in the marketplace right now.

David Busker: It's a global problem. I just read that one-third of total global government debt is at negative interest rates. It's going to be a long time before we see high rates. With that being said, I think U.S. banks are in pretty good shape. We're helping clients finance projects right now in the market for real estate, and they're as competitive as they've ever been.

Mark Muesenfechter: I'd also like to point out that pricing in our market is heavily impacted by local competition. Outside of credit worthiness, competitor pricing may be the highest factor in setting rates and terms. The key is to remain disciplined while making a pricing decision, given the individual specifics of the

CONTINUED ON NEXT PAGE

TABLE OF EXPERTS

There are some tenants that want to know where the public transportation is, and they are building that into their space requirements in a lot of cases.

CARL CONCELLER,
NAIDESCO

CONTINUED FROM PREVIOUS PAGE

opportunity, and pricing without compromising on credit quality and structure standards. We will get more aggressive on pricing for a strong deal, but we won't sacrifice on structure as we all too well remember what happened back in 2008.

Thomas Jerry: Traditionally, our real estate clients would look to CMBS financing to get a long-term, locked-in rate and reduce their long-term risk, but over the last year or two, the local lenders have been very competitive. Naturally, I'm not going to encourage clients to use CMBS financing in light of the associated restrictions and costs, and the fact you essentially cannot prepay those loans. So it appears to me that the local banks have stepped up to the benefit of borrowers, and your statement about it being a competitive market makes that evident.

► IS IT A GOOD TIME FOR OWNERS TO CAPITALIZE ON THEIR INVESTMENTS?

Mark Muesenfechter: I'd say it is. Cap rates are low, demand's up and we've seen a handful of our good loan customers sell their properties because valuations are high right now. They are taking advantage of a good selling environment and re-investing in other properties.

Carl Conceller: I think if you look back before the Great Recession, many sellers took advantage of what was then a once-in-a-lifetime opportunity to cash out and capitalize the value of their real estate holdings. But then the roller coaster ride of a declining market hit, driving prices down. We're now seeing cap rates equal to or better than the 2006 and 2007 period presenting an opportunity to capitalize their assets. For many property owners, they have an opportunity to sell and cash out or do an exchange or 1031 trade and take advantage of the strong demand for investment properties in our current market. Another option for a business owner who occupies and owns their building is the possibility of structuring a sale lease back in which they sell their building to take advantage of the appreciated value, but enter into a long term lease where they still have control of the asset. I think there's a great opportunity there because the interest rates on the purchasing side are low to help people purchase an asset, but on the other side, there's very strong values and benefits to cashing out because you don't know what the future's going to predict. Right now, we're in a real key position to capitalize on values.

Kevin Williams: We are seeing a number of sale lease back transactions.

David Busker: The cost of capital is very low, so it is competitive already then you combine that with competition from institutional owners of real estate, like REITs and pension funds that don't even pay income tax that have another 30 to

TABLE OF EXPERTS

40 percent advantage. So, you see some of these business owners selling and leasing back, because the landlord's cost of capital is cheaper. If a business owner is investing in their business or the business is growing, then their cost of capital can be very high. So why would they put it in real estate, which is yielding something low? Because everybody's wants real estate right now, the business owner is saying they will sell it.

Thomas Jerry: Just to play the devil's advocate, a major consideration is that long-term capital gains rates are the highest they've been in years. So, naturally, the smaller client looks at that – everybody is tax averse. Maybe we're all too tax averse, but that's something that smaller investors usually want to consider.

Carl Conceller: Obviously you would discuss the benefits of doing a tax-deferred exchange and how that might work to reinvest that capital in something you can produce an asset.

Luke Pope: We're having a lot of people get out of the management intensive asset class and do a 1031 and move into that triple net lease. It's allowing them to change their operating status from manager/operator to more of a, "Let's collect our coupon every month from the mail."

Carl Conceller: The other side of that coin is that a lot of property owners are very astute real estate investors. They are hands-on owners who have managed their properties and built a sizeable portfolio. However, their children may not have the same real estate acumen and are living in other parts of the country. By taking advantage of the current market opportunity to capitalize the asset and trade into a net leased property, they can realize a market rate of return for their family over a long-term basis without having to manage the property. So, there's a lot of benefits to looking at exchanges.

HOW WILL RECENT AND ANTICIPATED CHANGES IN TECHNOLOGY, LIFESTYLES, DEMOGRAPHICS AFFECT COMMERCIAL REAL ESTATE IN ST. LOUIS?

Sharon Henderson: The newest technology tools we've seen are data collection devices that track how staff utilizes existing space. Some devices are embedded in key badges or motion-censored light switches. As spaces are used, the length of time and how they are being used are identified. Often when programming a group, we are relying on how people think they're using their space, which often isn't quite accurate. By combining this type of data collection technology along with conversations, accuracy regarding the types of spaces needed increases. If we do that carefully, we can reduce their real estate investments from a square footage standpoint.

CONTINUED ON NEXT PAGE

We're having a lot of people get out of the management intensive asset class and do a 1031 and move into that triple net lease. It's allowing them to change their operating status .

LUKE POPE,
CliftonLarsonAllen

TABLE OF EXPERTS

CONTINUED FROM PREVIOUS PAGE

Kevin Williams: I think technology will continue to reduce the employee per square foot requirements for employers. The trend's been going on for a long time, and it's going to continue, but I think it's going to accelerate, not only from reduced needs for on-site storage and other space, but also from increased production from outside the office, the continued use by employees of mobile devices to get their jobs done outside the office. I also question if self-driving cars and Uber will ultimately reduce parking needs.

Sharon Henderson: We had a client who calculated the cost to lease space for one lateral file then multiplied that out by the hundred-plus files they used in their offices. Understanding the resulting annual cost to lease space for storing paper was a compelling way to encourage staff to purge. In the past, whether someone had an office and the size of that office was recognition for how important you were to a company. That is changing. New means of recognition will be replacing the old. As individual, dedicated spaces get smaller, benefits and incentives for staff will need to change. We recently had a client who started with 98 percent offices and culturally could only reduce to 50 percent offices. We challenged their comfort zone to get them to the 50 percent ratio. This solution is working great for them and has enhanced their productivity. Space planning and design in commercial real estate is certainly not a place for cookie cutter solutions, but we do have to utilize proven solutions as best we can within company cultures.

Thomas Jerry: Kevin mentioned parking, and I think that's an ideal example of where technology and lifestyle meet. We're not yet seeing what the result is going to be, but we're already overparked in certain parts of downtown to a large degree. We know that a lot of retail spaces are incredibly overparked, and it's going to be interesting to see what happens because we have a lot of land devoted to parking areas that may have to be recycled.

We are seeing good activity in our market. Our loans are up 13 percent from a year ago and much of this growth has been generated from commercial real estate transactions.

MARK MUESENFECHTER,
St. Louis Bank

Sharon Henderson: Another interesting topic in the corporate real estate world is the parking ratio as required by zoning ordinances. We are sometimes able to bring the physical space in the office down to a number that is really attractive to that company. However, the required parking ratios don't correlate with the desired square footage. Companies can end up leasing more space than they need and it's becoming an issue. Finding parking ratios that correspond with the parking demand needs to evolve with the square footage reduction taking place in today's market.

Carl Conceller: But if you look at a call center, they may require eight to 10 parking spaces per thousand square feet. Many suburban buildings have only three and a half to four spaces per thousand. So, what you're seeing, for example, at Northwest Plaza, is a repositioning of the property and a reuse of a portion of the space for call centers because the former shopping mall has an abundance of parking spaces per thousand. There's only so many places you can do that. But there are some tenants that want to know where the public transportation is, and they are building that into their space requirements in a lot of cases.

Thomas Jerry: And we know that younger people increasingly don't want to drive. There's statistical evidence backing that up.

Kevin Williams: We are seeing some of these cities take a look at their zoning requirements. And, in fact, University City changed their zoning requirements for some of their retail parking, and that actually allowed for greater density.

▶ WHAT ARE THE TRENDS IN MULTIFAMILY AND MIXED-USE DEVELOPMENTS?

Thomas Jerry: I'd say the trend on the affordable low income side is a mixed finance model, which involves a lot of players and a lot of different types of tenants and income levels. Because of the lending environment and the downturn, you had to be more creative about developing those types of multifamily uses and you needed more participants. So you would combine tax incentives with various kinds of financing, and then you would get equity involved. And what it results in is market rate housing right next to low income, very low income and workforce housing. That model has been replicated throughout the U.S., and extensively in the city of St. Louis. A great example is Renaissance Place, which is in the midtown area, east of Powell Hall. That neighborhood development was a joint project that involved the Housing Authority, McCormack Baron and a number of lenders.

▶ WHAT ARE SOME OF THE WAYS DESIGN CAN ENHANCE A COMPANY'S CULTURE?

Sharon Henderson: Culture is very different from company to company and can evolve as time goes by. Words like transparent, competitive, fun, conservative, driven can help describe cultures. It is our job to learn and understand what a company culture is so that we can create the best design that supports and reflects the culture they have created. When culture is reflected well within a space, the space itself can be used to attract and retain new young talent in addition to inspiring the existing staff.

David Busker: I think there's no better opportunity to address a culture than a real estate transition. It can actually energize your workforce. We've had clients who actually changed their work processes based on how they designed their space. A workplace strategy can highlight how you work and how you can be more productive. And that's what can really impact culture in these companies. They begin to see the real estate as a tool rather than a cost center. And it changes how they make decisions.

Sharon Henderson: Corporate design has proven itself to be much more than creating an aesthetically engaging space. Evidence has proven time and again that well-designed spaces enhance company efficiencies and profitability. A recent client shared with us that they increased sales by 40 percent in the first three months in their new space.

David Busker: We do post occupancy surveys after each client engagement. And, we ask clients, "What are your metrics before and what are your metrics after?" And it's astonishing. It's using their own metrics. "How do you define productivity? How do you define your recruitment and your workforce?" And they have measurable improvements in recruiting and productivity when they plan their workplace correctly. Or if it's in a warehouse, they can be substantially more productive. If they take the time to actually plan for it and measure it, it can have a serious impact.

Sharon Henderson: When we begin a project, we work with the executive group to understand what their initial project goals are and then help them dig and explore what additional success measures this project can provide their organization. We keep these high level goals in our sites with every decision we make throughout a project.

CONTINUED ON NEXT PAGE

TABLE OF EXPERTS

CONTINUED FROM PREVIOUS PAGE

AS BABY BOOMERS ARE LOOKING INTO RETIREMENT, WHAT ARE SOME SUCCESSION PLANNING IDEAS FOR REAL ESTATE INVESTORS OR DEVELOPERS?

Luke Pope: Using the deferred exchange to move into more triple net lease properties, and move away from the management-intensive business into collecting a check mentality. But we're also seeing real estate investors hire boards and then taking a step back. The IRS has made it a little bit more advantageous to do ESOPs now. So we're seeing some ESOPs, but there can be challenges with that because a lot of real estate shops aren't large enough to do an ESOP. We're also starting to see a more boutique strategy where people are exchanging into a Delaware Statutory Trust. They're usually going out to a broker, and under the deferred exchange, you can't typically buy a partnership interest, but you're allowed under the code to buy an interest in a Delaware Statutory Trust, because it's disregarded for tax purposes, and therefore you're deemed to own the underlying real estate.

Thomas Jerry: I assume you're also seeing the use of charitable remainder trusts. That approach allows retention of control to a degree while moving the asset out of your estate and creating an income stream over time. It addresses a lot of issues that owners might face.

Carl Conceller: If the ownership entity is a family, it might be beneficial to talk with your accountant and attorney about the disposition of an asset. Because family members may have different investment objectives, one party may want to cash out while others may want to reinvest. So it's important to talk to your advisers early about planning and succession in the disposition of an asset.

Thomas Jerry: We've provided an alternative approach to some clients where you recapitalize the company itself, and establish two classes of stock: One's voting and one's nonvoting. So you can gift out or sell nonvoting stock at a discounted rate over time while still retaining control. That moves successors into a stronger equity position, and ultimately can lead to a buyout of the voting stock.

Carl Conceller: But from a brokerage standpoint, it's important when you're working with a client that they seek the council of their attorneys and accountants because they know their financial situation and can give them advice on how to proceed forward with a transaction. So it is prudent to take the steps necessary in advance to speak to your advisers about the planning involved when titling real estate.

Luke Pope: Yeah, I couldn't agree more that, especially in estate planning, but really when you're doing any real estate sale, to bring your team together, attorney, accountant, broker, and get everybody on the same page to minimize tax and make the best economic play for the future.

WHAT ARE THE CHALLENGES MOVING FORWARD?

Mark Muesenfechter: For bankers, I would say heightened competition in our market as we all compete for new business. While this may be a challenge for banks, it good for borrowers. There are also more speculative deals coming to market. While this indicates our economy is getting stronger, it does present challenges to banks from an underwriting/structure standpoint verses typical cash flow producing properties.

Carl Conceller: One of the things I think we need is to market the positive aspects of St. Louis better. In terms of the quality of schools, great housing values, access to higher education, and the fact that we've got arts and sports in our community. St. Louis has a lot to offer. And sometimes when we talk about growing our community, it's really selling our community. And many of my contemporaries in brokerages are reaching out to people in other parts of the country and promoting the value of relocating to the St. Louis region. So I think our challenge is to sell what we have and try to attract and grow population.