

Fifty Plus Years in Commercial Real Estate

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Good Morning my name is Greg Nooney and I've been asked to share with you from a historical perspective my 50 plus years in St. Louis commercial real estate.

It all started in February 1954 when the US Army decided they could adequately defend the Country without any further help from me and my two year military career ended.

Life was simpler – no escalation clauses, no environmental issues and leases were four pages. Now there are more than 50 pages. Last one I reviewed was 75 pages. (S. G. Adams nickel form lease.)

There were no national commercial developers or national commercial real estate firms. All development was local – individuals or companies built retail, office and industrial after securing a tenant and financing. In the 60s, Trammell Crow, which started in Dallas, moved to other cities and built spec industrial buildings but there were no tenants until they were able to get insurance company financing and that changed the industry.

Life Insurance companies did mortgage financing. Banks did not make permanent mortgages – only construction loans secured by a firm takeout from insurance company.

The country was still recovering from 1930'S Depression and WWII. No new office buildings were built in downtown St. Louis since late 1920's Shell/Ambassador.

In 1960, the Executive Bldg. (now Millennium Bldg) was built by New York Dev. N/E corner Sixth/Olive. Manufacturing and distribution was done in Multi-story buildings. Rents in class "A" office buildings \$2.50 to \$3.00 SF and most were non-air conditioned. Downtown was still center of office, commercial and retail activity.

Change started to come as the 50's moved on, three federal government programs enacted following WWII would forever change the face of the American City as we knew it in the early 1940's.

1. GI Bill of Rights- millions of returning war veterans able to obtain a college education at Government expense including R & B. Most never expected to be able to afford-NO RESTRICTION ON INSTITUTION ONLY THAT IT BE ACCREDITED._GJN EXPERIENCE 1948-52 AT SLU.

2. GI mortgage insurance program-90% LTV at low rates
3. President Eisenhower's Interstate Highway Act-paved America with concrete

Approximately 2 miles south of where this photo was taken is the Hampton Village Shopping Center an interesting development I was involved with since 1955. Idea of Harry Brinkop in late 1930's. knew auto age coming but still wanted to be accessible by public transportation. Bought all four corners of Market Bldg. completed 1940. Brinkop as market master didn't work. Bettendorf took over and established supermarket. WWII intervened and construction halted until 1946. Two strip bldgs first followed by Plaza. Walgreens-S.S.Kresge-JC Penney major tenants. Completed 85% of Plaza-sold to W & K-Zeckendorff NYC.

Cities countered suburbanization with urban renewal projects such as Mill Creek Valley in St. Louis, which was 454 acres from STLU to Union Station. 90% was funded by federal govt. It was estimated to be completed in 10 to 12 years...took 43 including demo of Laclede Town.

Clayton became factor in office market late 1950's/six floor height limitation. Height limit removed in early 1960's: result was PLC. 1st building opened 1963-rent \$5.00 SF (other buildings @ \$4.50) expenses \$1.80 SF- cost \$50 SF 8% return-took approx 2yrs. to lease up-no escalation clauses, attempted to get taxes & insurance. 2nd building opened 1969-rent \$6.75 SF- more escalation, taxes, insurance cleaning & electric. By mid 1970's full escalation was standard. Construction Labor situation not good during 60's-70's-Unions fighting for ever increasing wages and arcane work rules. PLC had average of six work rule disputes on each building. Interco in 1986 had none. NLRB ruling on placement of concrete panels-three unions claimed jurisdiction. Ruling put one of all three on the crew. Pre-Fabing any pipes etc in shop not permitted. Note absence of all Brick High Rise Buildings in 60's-70's. Brick layers made themselves non-competitive by limiting number of bricks laid per worker.

Mortgage correspondent insurance companies (explain direct i.e. equitable & correspondent system) switching from residential to commercial. No competition from S & L's – new correspondents got them into equity real estate. We also did 500 Broadway IN 1972 with CIGNA-353 Urban renewal.

How many remember when Highway 40 ended at Brentwood Blvd? It was connected in 1960's to Skinker...great place to drag race. When section built west of Brentwood, the intention was to connect with Red Feather expressway at Skinker. Richmond Heights' opposition delayed & then came WWII.

Interstate highway program started late 1950's, by 1960's and through the 1970's was in full swing. Suburban developments such as Westport at I-270 and Page a mixed use development and Earth City a prodominately industrial development project were built along the new Interstate network.

Major downtown banks built new headquarters: Mercantile Bank, US Bank 1975, Boatmens Bank, Bank of America 1976 and Centerre Bank. (Centerre – condo – had three owners: Centerre, IBM and Equitable). Equitable developer, Nooney Co., took over development when building about 65-70% complete. Equitable exited development. We completed building and leasing. TEN YEARS LATER THEY REVERSED AND STARTED TO MANAGE AGAIN.

Early 1980's two Federal Government decisions had great impact on real estate. First was the deregulation of S & L industry. S & L's were permitted for first time to make commercial mortgages. Rates higher than residential so concentrated on commercial. Problem: loan officers were not knowledgeable in commercial lending, resulting in many bad loans that led to THE RESOLUTION TRUST Corp. (RTC) between 1989 and 1995 closing or liquidating more than 700 S&L's with assets of \$359 billion. Next were the 1981 tax changes: top marginal tax rate lowered from 75% to 50% with a 15 year depreciation and 10% investment tax credit for new equipment purchases. These tax changes along with the S & L commercial lending activity resulted in massive overbuilding of commercial real estate particularly office buildings.

By 1990 the amount of office space in USA doubled. In 10 year period we created new office space EQUAL TO WHAT EXISTED in 1980. Even in a strong economy it took over four years to fill all the space. This overbuilding of office space brought a new dimension to the real estate brokerage industry: the tenant rep broker. Up until the mid 80's, most tenants were not represented by brokers, but by larger national firm's i.e. Xerox, IBM had extensive real estate depts. Smaller tenants handled their own. Tenants started to employ brokers to also handle renewals. From a LL view this was shocking. (MJW ST PAUL INS PLC) Now many brokers specialize in tenant representation exclusively.

The syndication industry flourished from the late 70's until 1986 and reached its pinnacle in the early 80's. The average investor could invest as little as \$5,000 with some tax benefits in the publicly registered offerings and the heavy hitters could invest in the private programs which required \$50,000 /\$100,000 minimum with staged pay in over multi year period and were tax oriented. In 1986 Congress passed the most tax draconian legislation ever regarding real estate, raising the depreciation schedules to 30/32 years and limiting the losses from real estate that could be used against other income. We learned a new term "Passive Losses." Investors could

not use against other income. RE professional could. Crippled the syndication business overnight. First time a tax change was retroactive.

From the mid-90's to the end of 2007, real estate development resumed at a much slower pace and requiring substantial pre-leasing. However, financing of real estate changed; while the life insurance companies are still a major source of commercial mortgages they don't devote the same level of annual funding as in the past. Formerly set allocation each year for mortgages-mortgage dept wanted to be sure and get it all invested by year end or face cut following year. As insurance companies were allowed to invest in other instruments, the mortgage department had to show equivalent returns. There was less money available for RE mortgages.

The CMBS industry was born and Wall Street entered the mortgage business. Banks also started to make mortgages other than construction loans...short maturities of 3 to 5 years...refinance... puts property at risk for rate change.

The excesses of Wall Street in pushing billions of dollars out the door through securities rated AAA by Moody's-Standard & Poor's finally brought down the house. While the residential industry got most of the publicity it affected the commercial mortgage business as well. The people servicing the loans know nothing about real estate or mortgages. (Example of GJN Indianapolis 1980's and General Growth prior to going into bankruptcy.)

In the past, real estate depressions were primarily caused by overbuilding particular office buildings. Current recession is more severe – underlying problem not overbuilding but collapse of overall economy, including consumer, which has not happened since the Depression of the 1930's.

Some final observations: Throughout my remarks you will note that federal government actions whether they are:

- Major changes in the tax code
- Providing money for redevelopment
- Mortgage insurance
- Deregulation
- Highway construction

All have a dramatic effect on the real estate industry, both residential and commercial.