

St. Louis Industrial Market
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(Slide 1) Good Morning, my name is Allen Klippel and I am pleased to present my overview of our Industrial Real Estate Market.

(Slide 2) Let me start by recognizing the members of my industrial committee: **John Wright** of First Industrial; **Phil Hulse** of Green Street Realty and my colleague at CB Richard Ellis, **Marc Cacciarelli**. All three of these men **are up to their eyeballs** in the day to day **masochism** we call real estate brokerage and development.

(Slide 3) Also, a special thanks to **Jeff Hawley**, President of BlockHawley Commercial. While not a member of SIOR, Jeff is a larger than life **source** for what's really happening in our town. Thank you committee members! And thank you, Jeff.

(Slide 4) Preparing my remarks, I ran across a headline in the St. Louis Business Journal which reads, ***“Over 80% of business is local – that’s our niche.”***

And how true this is today? Now more than ever, over 80% of our industrial real estate business involves **local** buyers and sellers, **local** landlords and tenants!

(Slide 5) So my remarks will focus on what's happening right here in St. Louis, and I will show you that there are significant **transactions** to report, **developments** to recognize, **trends and events** to follow and innovative **St. Louisans** to congratulate – People I call our **“Home Grown Heroes”**

And let me warn you, right here right now, few of my comments will be negative.

Ladies and Gentlemen, stash the **Hemlock** and pass around the smelling salts!

Now, for those of you who paid your hard earned money for facts and figures, let's look at some stats:

1. (Slide 6) **Availability**: is a measure of vacant buildings **plus** soon to be vacant buildings. In 2009, **Availability** hit a five year high at **16%** and more available space puts downward pressure on prices – sale or lease; It helps to take the vacant Five Million Square Foot Chrysler Plant **out of the equation**; but not much!
2. (Slide 7) **Net Absorption** marks the year to year change in square foot occupancy: For **2009** – We are negative 5 million including the Chrysler Plant – slightly positive without.
3. (Slide 8) **Construction Starts**: These numbers speak for themselves. So please keep our local **architect, engineers and contractors** in your thoughts and prayers.

(Slide 9) This dreary parade of statistics can be found on our website at www.siorstlouis.com.

Now, how about some **sunshine**? As promised, there are **significant** 2009 industrial deals to report in all **our submarkets**.

(Slide 10) First, there was the usual churning in Metro East Illinois, where business giants such as Proctor and Gamble, Dial, Sav-A-Lot and logistics provider OHL leased, expanded and renewed nearly 1.6 million square feet of bulk distribution space -- all in **Gateway Commerce Center**, a 2,300 acre, 9 million sf industrial development.

In fact, as we speak, there is no large distribution space available in either (Slide 11) Gateway or **Lakeview Commerce Center**, a 750 acre, 2.3 million sf business Park offered by Panattoni Development Company and located just north of Gateway.

(Slide 12) But if you need big space fast, don't panic. A little to the south, in Sauget, **Balke Brown Associates** has 550,000 sf in their **255 Logistic Center**, a new bulk distribution center in sight of the Arch! And what makes the Metro East Market special? No secret – High end product at below market pricing.

(Slide 13) In **St. Charles County**, Aerospace contractor **Herndon Products** leased 78,000 sf for a new headquarters and distribution hub.

(Slide 14) **Phoenix Textiles** leased 100,000 sf in the West 70 Commerce Center. And in Fountain Lakes, (Slide 15) **ViJon** renewed a 340,000 sf warehouse lease.

(Slide 16) Back in St. Louis County, **FiServ Solutions** leased 182,000 sf in Duke Realty's Lindbergh Distribution Center and **ExpressScripts** (Slide 17) leased a just completed 220,000 sf drug distribution building in **NorthPark**.

(Slide 18) Then there's leases completed by **Global Granite** and **Cheyenne Logistics**, **significant because** both tenants got rental rates starting at \$1.00 psf! What do all these companies have in common – Great Real Estate Deals – Easily 20-30% below the market high of several years ago! So don't let anyone tell you this market is dead – it may just have a case of that dreaded swine flu.

(Slide 19) Still we can't ignore this recession and the effect it's had on our industrial market. One major hangover from the economic downturn is the **tug of war** between Tenants and Landlords for lease concessions.

(Slide 20) Strong tenants are downsizing and demanding lower rental rates in exchange for longer lease term. This strategy is referred to as “**Blend and Extend**”, “**Extend and Pretend**” or, for the short term procrastinators, “**Delay and Pray.**” And most Landlords are willing to drop lease rates 10, 20 or even 30% to keep an important tenant another 5 or 10 years.

(Slide 21) Notable examples of this strategy include **Contico**, **Materiallogic** and **Sav-A-Lot**, all downsizing and renewing at significantly lower rental rates.

Let's move on.

(Slide 22) I asked my distinguished committee to identify the single **most significant** industrial event of 2009. The consensus, to a man, is the **closing of the Chrysler Plant in Fenton** – a real double whammy. Not only did Chrysler shut down its five (5) million sf plant and layoff 5,400 workers, it also pulled the plug on a slew of outsource suppliers. I'm talking over one million sf of lease space.

(Slide 23) These suppliers include: **Dakota Industries**, **TRW**, and **Visteon**. And the cherry on top -- **Chrysler** vacated over half a million sf in the Supplier Building next door. **For many years** Fenton was our tightest and most pricey submarket. Now that City has an abundance of quality assembly and distribution space. “Oh, the times they are a' changing.”

So what about those **Home Grown Heroes** I mentioned early on?

With major real estate companies marching in place and new construction at an all time low, opportunities for smaller and more nimble entrepreneurs appear.

(Slide 25) **Panatonni** bought the vacant Ford Plant in Hazelwood, scraped it and created the tax abated **Aviator Business Park**. Plans are to build a mix of distribution, office/warehouse and service center buildings totaling over 2.6 million sf.

(Slide 26) Down the street, **McEagle** is developing the 150 acre **Hazelwood Logistics Center** next to Lambert International Airport. The Park offers **Foreign Trade Zone** status and a 400,000 sf distribution building up and ready to go.

(Slide 27) On a different beat we see Phil Hulse of **Green Street Realty** developing, or should I say re-developing, in the City of St. Louis. Why the City? According to Hulse, “There's less competition and cheaper property.”

(Slide 28) Green Street is redeveloping the Northeast corner of Choteau and Jefferson to house a new headquarters for the **Sheet Metal Workers Union** and **Dynalabs**.

(Slide 29) North of Downtown, Green Street is assembling a 146 acre industrial park called **North Riverfront** and has already landed deals with **Raben Tire** and **Geodecke Construction**. As the name suggests, Green Street is **environmentally friendly** and both the **Sheet Metal Worker's Headquarters** and the **Dynalab Building** are **LEED certified**. So there is still a place for “**do gooders**” in this economy!

But all of this is so 2009 – What's on tap 2010?

(Slide 30) First, I doubt we'll see any new spec development from our strong national REIT's such as **Duke, First Industrial, Trammell Crow or Prologis**. Build to suit for a strong tenant – Yes. Speculative development – No! As things stand, we have a **two year supply of industrial space** ready to go and offered at discounted sale and lease prices. I predict that a difficult financing environment will continue. **Money is tight and bank loans are tough to score**. And because of this, I see more industrial property sold through **foreclosure**. And transactions, even **between healthy companies**, may fail for lack of debt. I believe this is a problem that will haunt us through 2010 and maybe beyond.

But let's end on a brighter note.

There were major transactions in 2009 and there will be more in 2010. Strong and alert companies will recognize the opportunity to cash in on discounted prices. There's plenty of product out there and most of it is on sale. And finally, look for our **Home Grown Heroes** to keep going. These are individuals and companies that just won't let a recession slow them down. My advice – chin up, eyes forward and get some while the gettin's good.

(Slide 31) **Thank you.**