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Kurt Greenbaum: From Olin Business School at Washington University in St. Louis, I'm Kurt Greenbaum, and this is *On Principle*. I'm really happy you've joined us for today's episode of *On Principle*, where we focus on telling stories about pivotal moments leaders face in their businesses and what we can learn in those moments. Today's episode will touch on a few different themes. It's about the strange and wonderful ways inspiration can strike. It's about risk, and how leaders stay committed to a vision. And for today's guest, it was a little bit about that old adage we've heard about before—the one about making your own luck.

Steve Smith: My name is Steve Smith. I'm the founder and CEO of Lawrence Group, which was formed in 1983 as an architectural firm. And over that 38 years, we've evolved into a full-service real estate services company doing architecture and construction and development and property management.

Kurt Greenbaum: A lot of little boys grow up and think they want to be firefighters or baseball players or astronauts, and you didn't do that. Tell me, tell us about your path.

Steve Smith: I grew up in St. Louis and the principal, if you can believe it, of my [school]—when I was in grade school in fifth grade—told my parents at a parent-teacher conference that I might make a good architect because I was good at art and I was good at math. Then my parents came home and told me that. And so that would have been, what, 12 years old, maybe? Ten years old? And that's been a path since that time, since that moment, that I would become an architect. So I went to high school and college with that plan and started the firm in 1983.

Kurt Greenbaum: So what's a day in the life of Steve Smith? What do you do day to day, week to week?

Steve Smith: Yeah, that's evolved over the years. So I've been in business almost 40 years. And so for the first 20 years, say, from 1983 to 2000, I led the growth of the Lawrence Group architects as a national architectural practice. And my day at that time was how do we grow, especially in the '90s, when so much was changing around the internet and everything that occurred in the '90s. You know how Lawrence Group could grow with that. In the early 2000s is when I expanded into

doing real estate development. A lot of it is around building the team at this point in time.

Kurt Greenbaum: There are principles that you apply to your firm, to your company. What ... what are some of those? Are ... do you have guiding principles that you try to run the business by?

Steve Smith: Our mission is to help our clients and partners realize their dreams. Architecture and building in general is aspirational. It's about the future. It's almost always ... there's an optimism and belief and growth. And ... and quite frankly, when you're building almost any building, there is a dream from the client standpoint about what that might become, both physically, what it might look like, but also what ... what purpose it might serve. And so the underlying principle is helping understand our partners' or our clients' aspirations, and the architecture or the building of the real estate or the development is ... is the ... the mechanics of achieving that aspiration.

The other thing is really around innovation. And, you know, architecture is ... since the beginning of mankind, we've been building structures to provide shelter, right? But the way we deliver buildings is evolving as dramatically as other industries. Maybe not so much as some; you know, communication, other things going on in science right now. But we are constantly challenging ourselves to imagine when a, I'll say, a client or a partner needs a building. How does that happen? University, a church, a school, an office, whatever it is to that thing being complete historically is a very difficult process. Thousands of people, thousands and millions of decisions, lots of opportunities for error and mistakes and cost and everything associated with that. How can we streamline that overall process?

Kurt Greenbaum: That's not the only type of project that you work on, right? You've ... you've developed the inspiration for projects that you yourself have initiated.

Steve Smith: Yes. And it's kind of a blur anymore between those two distinctions. So City Foundry, which is our most high-visible and largest project we've developed to date, is an outgrowth in that case, not necessarily of a client relationship, but of a community relationship, the community being St. Louis.

Kurt Greenbaum: Listen to that word: community. That's key to the story Steve is telling. He's a lifelong Saint Louis [resident], and he's seen decline in the central core of the city, a food desert, less residential housing, that sort of thing. And as he's going to touch on shortly, he's also seen the effect of new development in restoring communities and a chance to help make it happen. In this project, he saw an opportunity to bring something new into that community. Yes, something certainly that would generate revenue, create a return on investment, but also something that would become a source of civic pride, a source of jobs, economic revitalization. My

wife and I have been to City Foundry a few times since it's opened, and I have to say everyone just seems happy to be there.

Kurt Greenbaum: City Foundry. Take us back a little bit, and can you talk a little bit about where the inspiration for that came from? Tell us that story.

Steve Smith: Yeah. So downtown St. Louis and the city of St. Louis and the region had a certain aura, if you want to call it that, maybe in, you know, late '70s, early '80s. And I've seen the [what] I'm going to call both the decline in the city of St. Louis and the decline in downtown St. Louis—2014, 2015—there were sort of parallel things going on. On one hand, we had Ferguson happen in August of 2014; the sort of St. Louis narrative around the country, and at that point around the world, was taken a big hit. I mean, people were saying ... St. Louis as a whole region [was] burning down at the same time St. Louis ... I'm going to call it our conversion from a manufacturing city to a knowledge economy was happening at Cortex and was really beginning to bud.

Kurt Greenbaum: And let's ... let's just pause for a second and talk about Cortex. It's a ... it's in the central corridor of St. Louis. It's in the city. It's a redevelopment project that's created business incubators and office space. And am I capturing this about right?

Steve Smith: From my perspective, what Cortex is, it's ... it's the ... the leader in driving the St. Louis region as a knowledge economy from its history as a manufacturing economy. And so if St. Louis is going to prosper in the future, it's going to prosper because it's successful at converting to a knowledge economy, and Cortex is the lead and the symbol of that. And so all the things you mentioned are the manifestation—the actual buildings and jobs and companies and startups, all the things that are happening in Cortex. And it was in that context that City Foundry began.

Kurt Greenbaum: Right. And so at the same time, you had a son in college, as I recall, who was about to ... to graduate. How did that factor into all of this?

Steve Smith: My son, well, was graduating with an engineering degree from Georgia Tech, which is located in midtown Atlanta. You know, I think of Midtown Atlanta like Midtown St. Louis, where WashU and St. Louis U is. My family, my wife and my other kids, we all went down to Atlanta. We sat in the morning for his graduation and then afterwards, Will's still in his cap and gown, we're standing outside the arena and Will says, "Hey, there's this new development in southeast Atlanta, south, close to downtown, called Krog Street Market. We ought to go there for lunch. It's really neat."

We all pile in the car. We drive to Krog Street Market. And it was a foundry, about a 30,000-square-foot foundry building that had been redeveloped into a food hall. I'll differentiate that from a food court—food hall. And it was full of energy. People of all

shapes, sizes, colors, backgrounds, ages, kids, dogs. It just it just exuded energy and vibrancy. And here we are sitting down there and I'm thinking, why couldn't we do this in St. Louis? Where could we bring this kind of energy and vibrancy into the city of St. Louis? Literally sitting outside, I was eating a Fred's hamburger from Krog Street Market, I could think of exactly where I was sitting at that very moment with my family there. What about that Federal-Mogul's foundry that sits on Interstate 64? It's been empty for a decade. It's filled with graffiti. Right now, when you drive to downtown St. Louis from the suburbs, you're introduced to downtown St. Louis with this totally ratty brownfield building, not the sort of image we want to have for our community. What if that could be something like Krog Street Market?

The following weekend, which was May 9, 2015, we're back in St. Louis. My son's graduated, he's home. We hop in the car and we drive down to the Federal-Mogul site. It was for sale. And pulled into the parking lot. It was owned by Federal-Mogul Corporation. So they had a guard on site all the time, and there was little guard shack there, and we pulled up to the guard shack and Will and I jumped out, and [there was a] very nice woman, you know, in a uniform inside the guard shack, and I walked up to her friendly as I could be and said, "Hey, property's for sale. Can I go peek inside this great big foundry complex?" And she was very polite, and she said, "I'm sorry, but I can't let you do that." And I remember this very clearly, she said, "You might die." So we were able to drive around to another part of the site and sneak in the building ...

Kurt Greenbaum: Oh, that's amazing.

Steve Smith: ... squeezed through chain-link fence that had a chain on it, but it was ... you could stretch it wide enough so we could squeeze through it. Turns out there was an old rusty door that was not locked, and my son and I basically went into the building where the guard couldn't see us. It was a whole different part of the site. And with our iPhone flashlights, imagine you know what you've seen in movies of the most decrepit thing you can imagine. There was very little light because it was all boarded up. But as we walked into the core of the original foundry building, as an architect, I could see this ... this is really awesome. This could be something truly unique.

Kurt Greenbaum: What is it that made you feel that way? What did you see?

Steve Smith: To give context, from a developer standpoint, there were multiple previous development proposals for this very high-profile site, which suggested leveling the site, scraping it all the way, throwing it into the earth, into a landfill and building a new — I'm going to call it suburban—this sort of new development. And as I'm standing in this building, two inches of goo on the floors, it was slippery and slimy. I'm thinking, why would we tear this down something truly unique in some regards, representative of our past, our manufacturing past, and replace it with something that's sort of like Everywhere USA? Why don't we take what we're seeing here, something really special and unique, and restore it, change its use? It'll be

something unlike anything anyone has ever seen. Why don't we do that as opposed to do[ing] something that's vanilla?

Kurt Greenbaum: Now, for a little background here, you've already heard Steve reference this as the Federal-Mogul site. For years, the company had manufactured automotive brake parts at this foundry. But its history goes back to the early 1900s, when Century Electric built the site to produce electric motors—motors that powered new household appliances, even motors that ran entire factories. Federal-Mogul closed it in 2007, and there it sat, dormant, fenced off, boarded up and empty, for more than eight years before Steve and his son walked into the darkness and across those goo-covered floors.

Steve Smith: I remember going back to the office and with my development team, saying, you know, “I really think we're going to make a ... we're going to make a move on the Federal-Mogul complex.” You know, blank stares. “Huh?” You know, it's a ... it's a brownfield site. It's got 90 years of contamination on it. But in terms of when I buy the property, I'm assuming the environmental liability of the site. We started this on May 2, 2015. We closed on December 22, 2015. So within that period, we were able to both arrange financing. So I had bank financing, banks coming along with this and getting comfortable with the financial projections of what we were trying to create, but also of what we were going to do with this environmental contamination.

Kurt Greenbaum: All I can think is “There be dragons.” Why would you ... why would you go in there and take this on? So what's the decision-making process around agreeing to take on that environmental risk?

Steve Smith: Well, part of what I've done in my career is take many risks. I've been able to evaluate what is the ultimate risk I'm undertaking under in any given point type, financial risk, a human risk, reputational risk. And so I've gotten comfortable knowing that there's risk. But do I have a plan, a Plan B and a Plan C to mitigate that? There is a brownfield cleanup program that the state of Missouri has that helps fund cleanup. And I've used it multiple times and was very familiar with the program, and our point to the state and everyone else was, “We are your opportunity to clean the site,” and we quickly got a lot of support. So the knowledge we had of how to implement this program and clean the site also made enormous economic sense, if we were successful at being able to implement the program. For all those reasons, we not only made the decision to move forward, but we were able to get others to join in with us.

Kurt Greenbaum: You had this vision that it was going to be something really great, something transformative for the community. Did you get pushback? What was the message you were hearing back?

Steve Smith: We had a lot of people cheering us on, if you will, saying, “I hope you can. I hope you can accomplish that.”

Kurt Greenbaum: When you say people, what do you mean?

Steve Smith: The city administration, the mayor's office, you know, people at St. Louis University, including Dr. Pestello, [who] was new at that point. You know, he had just shown up on campus at the same time. The leadership at Cortex, which is both, you know, John Dubinsky and Hank Webber and, at the time, Dennis Lower, who was the CEO there. Community leaders. So ... so everyone that would be positively impacted by my success, helping in many ways, quite frankly. On the other hand, when I took people through, and I remember very clearly—and Dr. Pestello would ... would share this story as well—the president of St. Louis U., I walked him through in 2016. I could just see in his eyes: “Are you crazy? Are you nuts?” I mean, he was very polite, but I could tell, you know, he ... he couldn't see it. In taking something like this on, I had to be comfortable with the ultimate failure. And I got comfortable with that.

Early 2018, we signed our first leases. Amazing that here is this ratty site that we were able to get companies saying, “We see your vision. We're going to sign a multimillion-dollar, big-time lease.” And we signed three of them in January of 2018. They were the first three tenants, and there were three major tenants: Alamo Drafthouse Theaters, based out of Austin, Texas; they were a movie theater. So they signed in January. We had a company called Punch Bowl Social out of Denver, Colorado. Their CEO, guy named Robert Thompson. We had a company out of Tulsa, Oklahoma, called McNellie's Group that was going to do our beer hall. They signed up. And so now I've got contract agreements to deliver these tenant spaces. We had a lender committed, willing to fund us \$111 million, but we didn't have enough leases to close on the loan. We've got momentum, but time is starting to squeeze us.

Kurt Greenbaum: By this time, Steve has paid more than \$6 million for the broken-down site. He's secured more than \$19 million in tax incentives from the city of St. Louis, and he's gotten bank financing for what will eventually become a \$230 million redevelopment project. But to get *that* money, well, here's the situation. The lender won't close on the loan until Steve has signed leases from a substantial number of tenants, people who will eventually provide the income to repay the loan. But tenants are slow to sign on until they really feel like the project is real. And it's not going to feel real until construction starts. The lifeline arrives exactly three years after Steve tromped into the Federal-Mogul site for the first time on May 9, 2018.

Steve Smith: May and June of 2018, we had an angel investor step up—Andy Taylor and Carolyn Kendall Betts ...

Kurt Greenbaum: This is the family behind Enterprise Rent-A-Car.

Steve Smith: ... Enterprise Rent-A-Car, and they're also behind the MLS soccer team that's coming to St. Louis. And they've done so many, so many, so many good

things in St. Louis. And they stepped up to facilitate a way that allowed us to start construction: a gift, a gift from heaven, I'll call it. And without that, we wouldn't be here today.

Kurt Greenbaum: Well, let me just ask you, what was your reaction to getting that phone call on that May 9, 2018?

Steve Smith: From a tangible standpoint, it gave us some resources that allowed us to move forward. So that was just the pure practical side. But [it] also validated for me what we were trying to do in terms of impact, because at the end of the day, this is more than a real estate development. It's really, I believe, having a disproportionate impact on the central corridor. It spurred a lot of additional real estate investments happening around it. It's stabilizing those neighborhoods. We're going to create hundreds and hundreds and hundreds and hundreds of new jobs there, so all kinds of other impacts are happening out of this. So it validated the kind of greater purpose we were hoping to accomplish here.

Kurt Greenbaum: Even with construction underway now, with tenants starting to sign on and with help from the Taylor family loan, Steve still wasn't closing leases quickly enough to secure the financing to finish the project. The situation was dire enough that they'd even started considering the consequences of shutting down construction. But once again, he found a little luck. This time, it came in the pages of a 2017 federal tax reform law.

Steve Smith: There were some moments in March, February and March of '19, where [I thought] "Will we close fast enough to continue to pay our bills?" We evaluated ... not that we ever imagined that we really want to do this, but we evaluated the ultimate ... always aware of, what is the worst that could happen? The worst that could happen is we shut the job down, which would have been enormously negative. The perception that the project isn't going to move forward. I mean, once you start that spiral, you may not be able to stop it.

Kurt Greenbaum: What is it that happened? What triggered ...

Steve Smith: You know, in business and in life, you know, you sometimes you ... you have bad luck or good luck. And of course, luck is being in the right place when things happen. So it isn't really ... it isn't just luck, per se. But at this point, we had ... some good happened. Buried in that December 2017 tax reform was a program called Opportunity Zones, and we opened an Opportunity Zone fund on January 24, 2019, for City Foundry.

Kurt Greenbaum: What does that mean? Opening an Opportunity Zone fund?

Steve Smith: So we put a fund together and went out to the investment community to say "You can invest in City Foundry. You would benefit from the Opportunity Zone tax benefits, which are substantial—could ... could be substantial." They are pretty

substantial. It still needs to have underlying economic benefit in terms of investment. That fund went public. We all of a sudden found the investment community got excited about City Foundry and the City Foundry Opportunity Zone, and all of a sudden, boom, we were raising as we went in April and May, and we filled out the fund. We needed about \$37 million in our equity raise. But with the Opportunity Zone, we made, our ... our fund to where we could raise up to 50 million. And I made the decision: Let's dilute. Let's raise more money and keep less ourselves to be safe. And so we raised 13 million more dollars than the minimum we needed to make the project safe. And then, of course, seven months later, COVID hits.

Kurt Greenbaum: And, in fact, if I'm not mistaken, you were about to open, right?

Steve Smith: Yeah. Leasing was going very well. Our food hall was virtually full. Our planned opening for the food hall, which was June of 2020, we moved it to September 2020, and then we realized we're not going to give a date because we just didn't know how long it would be, and then a lot of our tenants fell out.

Kurt Greenbaum: How did you bridge that time, and how did you salvage the ... the tenants who ... who stayed with you? Who ...?

Steve Smith: Yeah. Of the four of my largest tenants were in, effectively, food, beverage and entertainment—arguably, the sector of our economy that got hurt the worst. Alamo Drafthouse—by far our largest tenant—had to file bankruptcy. Chapter 11 reorganization. Punch Bowl Social, basically, a social games, food and drink [company], had to file bankruptcy. I had another office tenant that was tied to the hospitality industry. They called me and said, “Steve, we're just simply not going be able to move in. We're just ... and we won't be able to pay rent.” And then we had our beer hall. McNellie's Group owns 20 restaurants, you know, [and] had to shut down, practically. And then in the food hall, those are small tenants, but many of them fell out as well.

I mean, we, you know, it wasn't like you could just say, “Well, you know, you got to honor your lease.” I mean, that wasn't going to work. We really had to work with everyone. And that's what we did. And ... and so Alamo Drafthouse is still coming. We restructured it. You know, McNellie's, that's still going to be a beer hall. We're in the process of renewing ... restructuring that as we speak. The food hall, we ... we found new tenants where ... we had five core tenants that stayed with us through it all.

Now, oddly, this is sometimes the ... the silver lining in things. The value creation is actually greater now than it was then, because we're getting more revenue for that tenant space than we were going to get pre-COVID. And the reason for that is those early tenants, one, I didn't have a building to show them. I only had pictures. And two, I really needed them, so I was in a less strong position to negotiate. Now we have a completed project, and if you tour through it, it's like, “This is really

something.” We want to be here. The way it has turned out absolutely has met or exceeded my wish and desire and dream and goal and vision.

Tim Solberg: I think there's a common element in all of the stories of the vision and the patience and willing to take a risk, and that you come on to hurdles, and there's points where you think “I can't make it,” “We just can't make it work” or “Is it worth the effort?” And I think that's a common thread, whether you're working at the individual level or ... or a large development.

Kurt Greenbaum: That's my colleague Tim Solberg. He's a professor of practice in finance and serves as Olin Business School's academic director for our corporate finance and investments platform. Economic development is one of his specialties. He's guided numerous student teams to produce award-winning work, including work on a business plan for a trauma hospital in Port au Prince, Haiti. That plan ultimately helped secure a \$7 million grant toward the hospital's construction. I wanted Tim to talk about the risks and challenges associated with this kind of work.

Kurt Greenbaum: He could have ended up with a giant white elephant on his hands, right?

Tim Solberg: That's a good point. And that's ... that's the thing about taking an economic risk. You know, fortunately, there was the incentive there. The change in the tax code to allow an economic opportunity zone. Fortunately, there were investors that were willing to join in with him. And there was the political will. The city wanted to see residential buildings built. They wanted to see full-time, year-round residents of the city, there 24 hours. So that the whole concept of no grocery stores in the area, he's bringing in a grocery store or a supermarket into the Foundry. And that's going to aid in bringing back more full-time, year-round residents to the area and all the development of new apartment complexes in the area. There's an article I read about Stanford and Palo Alto, where they talk about [how] Silicon Valley had its roots in the 1930s, and that [it] was the provost of Stanford University [who] was one of the instruments of planting the seeds and the intellect and all the entrepreneurs back in the late 1930s and 1940s. But it didn't really take off until 30 years later.

Kurt Greenbaum: What do people misunderstand about the idea of economic development? What do they think they know that they don't really know?

Tim Solberg: They underestimate the impact. It's something that really contributes back to the community and will ultimately pay for itself. And the other point, it's not just tax revenue that they're going to provide by being a thriving business, but it's hundreds of jobs and the payrolls that people will have. It keeps on increasing in value for everybody involved by plugging in all of the investment and all the energy and sweat equity that went into this. The city, county and state are now receiving millions of dollars of tax revenue every year. That's renewable and can grow. And so that's a cascading effect ... impact. You know, it's not just a building and some

restaurants that went in. It's something that really contributes back to the community and will ultimately pay for itself.

Kurt Greenbaum: In my conversation with Steve, for example, he explained that some of the public subsidies he received paid for the creation of a free parking garage at the site. People want to eat; they want to shop. They don't want to pay to park. Steve also talked about taxes the site generates. For more than a decade, the site was vacant. It generated no sales taxes. It was generating something like \$50,000 a year in property taxes. Nobody worked there. Now, and Steve is talking round numbers here, The Foundry will spin off a million dollars a year in real estate taxes, a million and a half dollars in sales taxes and another million dollars in payroll taxes.

Kurt Greenbaum: So if you were telling your wife or a friend about this story, what are the two or three big takeaways that you think that you'd want that person to know about?

Tim Solberg: St. Louis has all the components to keep on growing and thriving in a major way and being a major contributor to the national and global knowledge economy. At the smaller level, the takeaway is determination, the connect ... connection of all the people connecting the dots, as I like to say. And I think having the vision and seeing it through. You know, it wasn't just doing the budgeting and the data. It's "I have the vision, so I'm willing to take the risk. We will get an economic return from this."

I think the thing with the Foundry development is Steve Smith's vision and determination, and the fact that we were able to put tax incentive investments as well as the public will — you know, there is a public good to all of this — and to tie it in with all the other developments going on in the Cortex, and the soccer stadium and the Union Station aquarium. So there's a whole complex of things happening. And then the big picture for me is, as Steve said, the Cortex and St. Louis as a knowledge-based economy, the 21st-century economy and all of the companies that are going to be coming to fruition that we're already seeing at the seed phase and even further that are developing in St. Louis. So it's a great city. It's ... it's really growing and thriving, and I think we're going to see more of this. It's ... it's a very strong story.

Kurt Greenbaum: So when you walk around there, what ... what do you feel, what's ... what is your emotional reaction to it?

Steve Smith: It's just really cool. It's just really unique. It's ... it's got a feeling to it. It's authentic. There's like a private street in the middle of it where we do all kinds of events, and almost every weekend there's an event in there. So visitors to St. Louis will come and say, "Gosh, this is pretty cool. Didn't know St. Louis had cool stuff like this." The second is the aspiration around community. And like I saw at Krog Street six years ago, if I go in our food hall today, and I sit right inside the entrance, which I

like to do, and watch the people coming and going, it's all shapes, sizes, colors, ages, backgrounds. It is very diverse, and I think about how do we create a gathering place, a community place where people who don't know one another can ... can, as I like to say, break bread together? And the food hall itself is all community tables. And so, I don't know if you noticed it, but when you go there, you have 20 choices of what to buy. But then you sit probably next to someone you don't know. And then that person you don't know is probably different than you, and I think that's a good thing.

Kurt Greenbaum: And that's our episode of *On Principle*. Many thanks for listening, and thank you to Steve Smith for sharing his story and Tim Solberg for his additional insights. For more information about this episode and *On Principle*, be sure to visit our website at *On Principle* podcast dot com. We'll share more detailed notes about this episode, along with links to The Foundry and some related stories about its development. If this is your first time hearing *On Principle*, you can catch up on previous episodes on the website or search for *On Principle* in your favorite podcasting app so you can subscribe. If you have any comments, questions or episode ideas, send an email to Olin podcast at W-U-S-T-L dot E-D-U. That's olinpodcast@wustl.edu.

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