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Behind the Breakup

St. Louis Business Journal by Christopher Tritto and Lisa Brown

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It began as an ambitious effort to build St. Louis' grandest luxury high-rise condominiums. It became the wedge that divides two of the region's most successful self-made businessmen.

Few projects evoke such pride and resentment in their creators as The Plaza in Clayton. **THF Realty's** Michael Staenberg and Clayco's Bob Clark joined forces five years ago to erect the 30-story residential tower, adjacent high-rise office building and 1,271-space parking garage. But tensions emerged within the first 24 hours. Construction progressed, but problems between the two companies grew. THF refused to pay Clayco for millions of dollars worth of completed work. By 2002, with the project 80 percent complete, Clark pulled Clayco off the job.

Clark and Staenberg haven't spoken since. They take pains to avoid each other. The parking lot that divides their adjacent offices, both built by Clayco at Page Avenue and Interstate 170, serves as a blacktop moat.

Their communication has been through lawyers -- first during an arbitration process that was completed in June and as they prepared for a related trial set to begin Sept. 22. In an unexpected move, the two settled their dispute on Aug. 31, just three weeks before heading to court. Their three-year battle ended with a one-line statement.

Despite the resolution, the wedge remains.

Both men visit the Plaza regularly, but separately, to admire their work and show it off to clients. Photos and architectural models of the project adorn their offices and company Web sites. But for Clark and Staenberg, each walk around its grounds, each step inside its doors, each view of its commanding stance in the Clayton skyline, is bittersweet.

Earning his way

Clayco Chairman and Chief Executive Bob Clark, 46, became fascinated with the business of building as a kid growing up in Bridgeton. Attention deficit disorder (ADD) made it difficult for him to pay attention to his teachers. But from his elementary school classroom, he could stare out the window for hours, watching workers construct a nearby building for Ozark Airlines.

He remembers receiving books on architecture as his earliest gifts, at his request. After his family moved to Creve Coeur during high school and he graduated from Parkway Central, Clark had designs on becoming an architect. But he dropped out of Fontbonne University after just five weeks. "The classroom setting was extremely painful for me."

Yet Clark had the drive to become a success story. Much of that came from his late father, Harold Clark, who ran a successful painting business but refused to let his children join him at the company. "He wanted us to earn our own way," Clark said. "Besides, my father and I would have killed each other. We had a tortured, troubled relationship with highs and lows. But he was still a tremendous mentor. Many of the business philosophies he used, I use today."

Clark took a job painting houses, and then in 1979 started Machine Maintenance & Equipment Co. with \$60,000 in insurance money he had from a pellet rifle accident in which he lost an eye at age 14.

He spent the next four years selling construction equipment before selling his stock in the company.

In 1984 he launched Clayco with the money he made through his stock sale and a loan from Commerce Bank. He went without a salary for three years and lived on some of the proceeds from his stock sale. Still trying to get the business off the ground, Clark nearly called it quits until he won a contract to construct a building for CyberTel Cellular Telephone Co., across from his present Overland office, in 1986.

Things really began to pick up in 1988 when Clark met Dale Perkinson, the developer behind Linclay Corp. and later Perkinson Realty, who is best known for turning Earth City into a hub of commercial, industrial, warehouse and distribution space. Perkinson began hiring Clark for several of his projects and supported Clark's interest in new technology and techniques such as tilt-up concrete construction.

"We went from building \$700,000 jobs to \$7 million jobs almost overnight," Clark said. "It was a big leap of faith he took in me."

Despite his ADD, or maybe because of it, Clark found he had other skills that made him good at leading his business. "I can walk around a building and touch 50 things and talk to a dozen people," Clark said. "I can multitask very well and have a good memory. When I'm involved in a deal, I can keep track of hundreds of numbers."

The 1993 flood stymied much local real estate development and pushed Clark to expand his business beyond St. Louis. He followed customers to other markets, and within a year 60 percent of Clayco's business came from outside the region. No more than a quarter of the company's annual revenue has come from St. Louis since.

"We're better than anyone in the country at parachuting anywhere and building projects," Clark said. "We are an intense company full of intensely smart people."

By 1999, Clark had grown Clayco into a \$300 million company.

Clayco built its reputation largely on commercial and industrial projects. In the mid-1990s it ventured into sports facilities when it built the Rams Park Training Facility in Earth City and took on

a handful of loft apartments and other residential jobs. But Clark's leap into residential development came in 2000 at The Plaza in Clayton.

Only one speed -- on

As president of THF Realty, Staenberg, 51, has been in an all-out sprint since his career in development began more than a quarter century ago. He said he's been at a full-throttle pace as long as he can remember and doesn't apologize for his getting-the-deal-done demeanor.

"You're either in the game or you're not," he said. "There is only one speed: on."

With Stan Kroenke, Staenberg has led THF Realty to become the fastest-growing private retail developer in the country for the third consecutive year, according to an annual survey by Retail Traffic, an industry trade publication. THF now ranks 20th in size among all retail developers, both public and private, in the United States.

Staenberg got his start in real estate accompanying his father, Martin, an apartment developer in New Jersey, to work. His father paid him 20 cents an hour to clean basements and cut grass at the age of 8.

After his family moved to Omaha, Neb., his father died of a heart attack when Staenberg was 14. The oldest of four children, Staenberg's life changed. "I was put in charge and was the man of the family. We didn't realize we were poor," Staenberg said.

His mother paid his tuition at the University of Arizona, where Staenberg earned a degree in finance and economics. But Staenberg worked summers busing tables and as a waiter to pay for room and board so he wouldn't have to work more than one night a week during the school year. When it came to his class work, Staenberg was a serious student -- he had a 3.8 GPA by the time he graduated. "I was always taught that if you paid for something, show up."

Out of college, Staenberg was offered full-time positions with Mobil Oil and May Department Stores Co., with a starting salary of just under \$18,000. But real estate seemed to be Staenberg's destiny.

He decided to follow the entrepreneurial road, with his college roommate, in residential real estate. In June 1976, however, Staenberg decided to call a distant cousin in Kansas City who worked for commercial real estate firm The Leo Eisenberg Co. "I'd call him every day. Finally, he said to come for a year, with no salary."

A co-worker at Leo Eisenberg who lived with his parents, John Rubenstein, invited Staenberg to live with him and his family. The Rubensteins let Staenberg borrow a '68 Impala, and Staenberg earned \$2,200 his first year as a broker in Kansas City.

By his third year in the business, however, "the light went on," he said. Convinced fast food was "the next big thing," he called McDonald's Corp. directly and tried to attract the retailer to Kansas City. McDonald's, which had tried unsuccessfully for two years to secure a property for a restaurant in Red Oak, Iowa, instead gave Staenberg a different challenge -- to find a site in Red Oak. Staenberg signed one in six months and has since handled 200 McDonald's deals.

In the late 1970s, a McDonald's assignment in Clinton, Mo., introduced Staenberg to real estate

developer Kroenke. Staenberg brokered a difficult deal to get the McDonald's location and sent Kroenke a picture of the finished restaurant with a note that read, "What's the next challenge?"

"I was just persistent," Staenberg said. "Like a dog with a bone. I was going to get the deal done."

While in Excelsior Springs, Mo., site searching for McDonald's, Staenberg noticed one of the largest parcels of property in town -- the parking lot of a Wal-Mart. At the time, Wal-Mart had about 150 stores, but had not yet begun allowing other retailers to locate on its lots. Staenberg called Wal-Mart's corporate office and asked them to sell a piece of the lot in Excelsior Springs to McDonald's. It was Staenberg's first introduction to Sam Walton. "He thought my commission was too high," Staenberg said. "But then I did the first McDonald's deal on a Wal-Mart pad in the U.S."

Since 1983, Staenberg has developed six of the 14 Wal-Marts in the St. Louis area. Wal-Mart only works with 10 developers in the country.

In 1991, Kroenke and Staenberg joined forces and formed THF Realty in St. Louis. THF is named for the outlook they both have in business -- to get the job done but to enjoy their work. The initials stand for "to have fun."

Since its first 300,000-square-foot shopping center in Kittanning, Pa., THF has developed 20 million square feet of property. Staenberg has led the development of more than 100 shopping centers in 23 states. At any given time, THF has as many as 40 projects in various stages of development, between 200,000 and 1 million square feet. The company's philosophy is to own and manage its developments, and THF has never sold a property it has developed. As part of its growth strategy, the company also acquires one shopping center a quarter.

Robert Brinkmann, whose Brinkmann Constructors eventually took over as THF's general contractor at The Plaza, said Staenberg's competitiveness is what he's known for in the industry.

"I just think that's the way he's wired," Brinkmann said. "It certainly hasn't hurt his business. Michael's the hardest-working human I know. He's out there making deals all the time."

THF's strength has always been in retail. In 1999, however, Staenberg took THF into uncharted territory when he jumped into his first residential and office development at the corner of Hanley Road and Carondelet Avenue in Clayton, then commonly known as "the Clayton Hole."

The Parmenter connection

Despite their apparent similarities, it took a Miami developer to bring Clark and Staenberg together.

Darryl Parmenter, whose wife is from St. Louis, held 2.5 acres in front of the Ritz-Carlton St. Louis hotel under contract. He announced plans in late 1998 to fill part of the empty land at the Clayton Hole with an office tower and luxury residential tower fronting Forest Park Parkway. Parmenter discussed the project with Clark following another project together.

A St. Louis Business Journal article about the project caught Staenberg's attention. In January 1999, during a visit to Miami to attend Super Bowl XXXIII, he arranged a meeting with Parmenter. The dialogue initiated on that trip led Staenberg and Kroenke to join The Parmenter Co. on the project about nine months later. THF took a controlling interest in the project and expanded

Parmenter's \$70 million vision into a \$165 million endeavor that became known as The Plaza in Clayton.

"When Michael approached us on this project, we really had not identified anyone in the St. Louis market that we thought would be a good partner," Parmenter said. "They (THF) were in the market, they know the contractors and had on-the-ground experience, which we didn't have. We did have a great deal of experience building high-end and high-rise condos. It was a very complementary relationship."

Parmenter held on to a minority interest in The Plaza, but THF took the lead on the project.

It was Staenberg's and THF's first foray into office and residential development, and they charged ahead. Staenberg sought to build a residential high-rise that would be unparalleled in the city. In a 2002 interview with the Business Journal, he described becoming emotionally attached to the project -- something he typically didn't do.

Clayco took the job as the design-builder, driven, too, by emotional attachment developed in early collaborative discussions with Parmenter. In a recent interview, Clark said he had reservations about taking the job when THF became involved, because Clark wasn't sure he was comfortable with Staenberg's business style. But Clark pushed those thoughts aside.

"We had previously been awarded the Boone's Crossing development in Chesterfield by THF and walked away," Clark said. "When I considered taking (the Boone's Crossing job), about 10 people called me and asked, 'Have you lost your mind?'"

Money and more

On March 10, 2000, after extensive negotiations, Staenberg and Clark signed a contract to build the Plaza and agreed on a guaranteed maximum price of \$85.8 million. But the next day, Staenberg sent Clark an e-mail and insisted the price be reduced by several million dollars. Clayco cut the price by several million dollars through negotiations with subcontractors and suppliers and a streamlined engineering process, but Staenberg insisted on additional discounts, according to arbitration findings released this summer.

Despite the budget dispute, THF and Clayco went forward with the project and substantially completed the construction on time. Clayco finished the office building on Sept. 28, 2001, and a few days later key tenant Ernst & Young moved into its space. Clayco completed the bulk of the work on the residential tower before its June 3, 2002, deadline.

But tension grew as THF refused to pay Clayco for several parts of the project, even though the payment applications were certified by Clayton-based TR,i Architects Inc., a firm retained by THF as the owner's inspector, according to arbitration documents. In mid-2002, when the past-due amount topped \$5 million, Clayco gave written notification to THF and walked off the job with its subcontractors.

Clayco filed for arbitration. THF responded with hundreds of counterclaims citing what it alleged to be defective and incomplete work by Clayco and dozens of its subcontractors.

"Once these guys got upset with each other, there was no turning around without going through

arbitration and lawsuits," said Tim Arnold, president of Eagle Plumbing Inc., a subcontractor on the Plaza job. "I get the impression it's not just about the money any more, it's more than that. Unfortunately for a lot of subs, when those two went at it, we all had to suffer."

Several other subcontractors contacted declined to comment or did not return calls. One builder who knows Clark and Staenberg said he and others would not want to comment, calling it "professional suicide."

In May, after two and a half years of arbitration that required 52 days of evidentiary hearings, an estimated 2 million pages of paper, 70 witnesses and a team of court reporters who recorded more than 14,000 pages of testimony transcripts, Clayco was awarded nearly all of its claims against THF while the vast majority of THF's counterclaims were denied as meritless. In May and June, Clayco received net awards of \$3.4 million from THF for payments owed for building the Plaza plus another \$5.5 million to cover its legal fees.

Clark said he visited the Plaza the day he received the arbitration findings and walked around the complex for more than an hour admiring the buildings. He said it was his first enjoyable visit there since the dispute began.

"The project was incredibly successful," Clark said. "I think of all the labor and sweat and guts and the subcontractors who busted their asses and did a great job."

Staenberg still visits the Plaza weekly. "I like to talk to residents," Staenberg said. "This (lawsuit) doesn't affect their lives. We act as though it's a non-event."

Trial averted

Although arbitration settled issues related to construction of the "shell and core" of the Plaza, Clayco and THF were scheduled to face off in St. Louis County Circuit Court this month to resolve disputes involving Clayco's interior fit and finish work on the Plaza's condominiums.

Clayco filed its 21-count lawsuit against THF in November 2002. It alleged fraud and breach of contract by THF. Clayco also sought enforcement of a settlement agreement on which it said Clark and Staenberg shook hands.

According to Clayco's account, Clayco and THF executed a letter dated March 21, 2001, intended to serve as an award notification for the tenant finish work. Staenberg signed the letter, which included condo unit specifications, floor plans, turnover sequencing and cost estimates of \$22 million for 82 standard units.

Clayco began providing work and materials while lawyers for both companies drafted a formal contract. Clark signed the contract in August 2001 and forwarded it to THF, expecting Staenberg to do the same, according to Clayco. Staenberg never signed.

Clayco contended THF's lack of experience in residential development caused Staenberg to change and delay several stages of the interior finish phase. That created millions of dollars in increased costs. Clayco carried out the changes, but when it filed change orders to cover its additional expenses, THF refused to pay many of them, according to the suit.

Staenberg said THF would not sign the contract because Clayco continued to change the contract and raise the price. "We could not sign a moving target," he said.

Clayco alleges Staenberg repeatedly blamed Clayco for the price increases and delays, became increasingly hostile, demanded Clayco and its subcontractors cover the added costs, and disparaged Clayco to potential condominium buyers.

"THF lost trust in Clayco's ability to manage the project," Staenberg said.

By summer 2002, Clark and Staenberg had reached a breaking point. On July 26, 2002, after extensive negotiations, they shook hands on a settlement agreement that ended Clayco's role as general contractor in exchange for payment. To help in the transition to a new general contractor, Brinkmann Constructors, Clark also let THF representatives view Clayco's subcontracts, according to the suit.

Again, lawyers drew up the formal paperwork. But on July 30, 2002, THF notified Clayco it was terminating Clayco "for cause." Clayco claims the move was designed to get out of paying its debts to Clayco, mask THF's own failings with respect to the project and take control of the condominium subcontractors.

Clayco claimed it was left holding the bag for damages of more than \$8 million. Clark sought that amount, plus interest and punitive damages from THF.

Clark and Staenberg appeared headed for an ugly court case. But on Aug. 31 they issued a joint statement announcing a legal settlement.

"We are pleased to report that we have resolved our differences with respect to the interior build-out at The Plaza in Clayton and will be dismissing the pending litigation."

Bad blood

Both Clark and Staenberg are careful about what they say about each other in public and often refer to their dispute as "a business matter." But the fight has become deeply personal as well. They refuse to talk to one another. They avoid running into each other at public events.

Still, both said they hope to move on now that litigation is complete.

Since 2000, Clayco has undergone a shift from its design-build general contractor business model to a full-service firm that includes real estate development, architecture and engineering, and construction.

Today Clayco has a record \$600 million in projects under way in 25 cities. Clark expects about \$400 million in revenue this year and perhaps record profit as well. While the construction industry as a whole generates profit margins of about 2 percent to 3 percent, Clayco's added services have boosted its margins to between 4 percent and 6 percent, Clark said. It also is accumulating equity in its real estate holdings. Clayco has 750 employees, including 320 locally.

Despite his experience at the Plaza, Clark soon plans to add a residential unit to Clayco's stable of specialties.

THF's primary focus historically has been national. Its largest project to date is currently under way -- the \$500 million Prairie Center mixed-use development near Denver, Colo. In recent years, however, it has had several high-profile developments in the St. Louis market, including the \$110 million Maplewood Commons, the \$275 million Chesterfield Commons and the \$40 million Wentzville Crossroads Market Place. THF reported \$182 million in revenue in 2004, up 10 percent from the year before. It employs 100 people, including 90 in St. Louis.

Staenberg said THF will never take on a high-rise residential project again. "This organization is about developing commercial projects within 200,000 and 600,000 square feet," he said. " (Residential) is just not our area."

As for whether he'd ever join forces with Clayco again, "anything is possible," Staenberg said. "We're all focused on moving forward. I wish Clayco and Bob Clark well."

Clark is more definitive.

"We will never work with THF as a contractor again," Clark said. "There is bad blood. You won't catch me and Michael having lunch together. That would be a little far-fetched."

Regardless of their future, the Plaza will continue to hold a prominent place in the minds of both men.

"I think it's beautiful," Staenberg said. "That's one thing that (Clark) and I can agree on. We both have developed a landmark project for the St. Louis metro area."