

November 10, 2008

Kansas City - An intermodal mecca

Kansas City is working hard to be the location of choice for large-scale corporate distribution centers, warehouses and manufacturing operations.

Economic development officials aren't lethargic in their efforts to achieve that goal, despite the fact that the region's attributes shine very well on their own.

The area is a full-blown intermodal mecca, presenting a very wide range of rail, road and air infrastructure staffed by talented teams who are eager to serve current, new and expanding companies. That is one of the two main factors that truly differentiate Kansas City from its competitors. The second is that the region's table is groaning under a veritable smorgasbord of building and site options.

Plentiful site options

The region presents a full array of choices to potential customers, including speculative buildings, build-to-suit with infrastructure in place, vacant and unimproved land and sub-surface warehousing. Spec buildings are an inducement to companies needing to expedite market entry. Their existence opens up the region to an entirely new set of relocation possibilities—companies in a hurry. Properties with utilities and roadwork in place appeal to the broadest spectrum of companies. Vacant land is also in high demand, allowing some companies to manage the development process from start to finish. Another option, subsurface warehousing, is a specialty in the region and appeals to savvy companies searching for unique advantages, such as a climate-controlled environment.

Growing demand leads to upsizing

The forecast for demand for all types of product in the region is promising. "At the end of the second quarter the net absorption of square footage in the nation's industrial markets was a negative 9 million square feet but in Kansas City it is up," said Paul Licausi, president of LS Commercial Real Estate. "The vacancy rate here was 2.3 percent for modern Class A space. In Memphis it is twice that." The local market is bucking the national trend. Not dependent on one coast or one industry, diversification is helping it better weather the storm of high fuel costs, international competition and faltering financial markets.

When asked how large industrial projects continue to find funding, Licausi said, "If you have a good case study and your foundation is solid, there is plenty of money out there." Most developers are working with a financial partner, such as an insurance or pension fund. "Only 20 years ago real estate wasn't considered a safe investment—today's portfolios are now moving from 20 percent real estate up to maybe 40 percent," he said. "This represents billions of dollars of impacts and the money has to be invested in solid projects somewhere."

Kansas City is preparing for a major change in focus—the demand for enormous spec buildings is rising. The local economic development community has noticed the trend over the last few years. Major distribution centers used to locate in Chicago, Dallas and Memphis, in part because the 100,000-square-foot or smaller spec product being built in Kansas City was just too small. Kansas City watched prospects come in and then go, but things have changed. "We're now routinely seeing 400,000-, 500,000- and even 800,000square-foot assembly

facilities and distribution centers springing up here," Chris Gutierrez, KC SmartPort president, said.

"There has been a paradigm shift, a change in strategies," Licausi said. "It started with developers, moved to the municipalities and then the larger product was here." One very visible example of the new government mindset is a proliferation of much-appreciated incentives, ranging from 10-year, 50-percent tax abatements to job training incentives, to the elimination of certain personal property taxes.

Spec buildings aren't the only thing upsizing in Kansas City. As supply-chain cost management has become more sophisticated, area companies have ramped up their investment in intermodal yards and industrial parks, appealing to local cargo owners and corporate relocation specialists looking for savings. F.E. "Skip" Kalb Jr., BNSF Railway's director of strategic development, said the timing is right for intermodal terminal expansions and business park developments too. Currently low industrial vacancy rates have spurred development and, "As companies reconsider their supply-chain strategies, they will examine not just the size but also the location of their distribution centers and warehouses." If a region has a top product, now is a good time to offer it. "Another upside of the economy is low construction costs. When is it a bad time to save dollars?" Kalb said.

According to Robert J. Marcusse, president and chief executive of the Kansas City Area Development Council, the transportation component is approximately one-third of the total cost of a product on a store shelf. If transportation costs can be reduced, a manufacturer's product can become much more competitive. William "Bill" F. Crandall, president of The Allen Group's Kansas City operations and developer of the new Logistics Park Kansas City said, "Fully 60 percent of the proposals we have received recently are driven by the need to reduce expenses." The Allen Group is answering that call with a new offering, a drayage calculator. It is a Web-accessible tool that allows companies to input numbers—including building size and container count—to compare costs and savings associated with locating in various parts of the Kansas City area.

The demand for rail-based intermodal centers is on the rise everywhere, said Steven E. Forsberg, BNSF Railway's general director of public affairs. "Rail is needed more than ever due to its fuel efficiency," he said. "Each ton moved by rail travels more than 450 miles on a gallon of fuel. That is almost double what it was in 1980, and three times as efficient as truck transit." Of course, by their very design, most intermodal centers are truck-dependent, but a successful marriage occurs when railroads concentrate on higher-volume, longer hauls and trucks focus on shorter distances.

Licausi said Kansas City's capacity to absorb in-market uptake and large national companies is self-evident, but its attitude may not be as apparent. Capturing the region's capabilities and aggressive marketing posture, he said, "All companies need to do ... is to give us a chance at bat and Kansas City will hit a home run."