

The biggest box in Kansas City

Spec warehouse adds to KC's claim as next generation inland port

By Patrick W. Rollens

It's big, it's spec—and it's local. Kansas City, Missouri-based Kessinger/Hunter & Co. broke ground in October on the region's first spec warehouse, and it's an absolute whopper at 602,000 square feet.

The development, at 167th Street and Lone Elm in Olathe, Kansas, signals a tipping point in the metro's industrial market. In recent years, the greater KC metro has successfully branded itself as a next-generation inland port in a bid to win consumer products firms seeking Midwest distribution points. As the ports on the east and west coasts continue to operate beyond capacity, area development players are firm in their belief that the rise of Kansas City can serve as a relief valve to take the pressure off the coasts.

Now, a local firm has put a sizable investment into play to back up the sunny rhetoric—and all indications are that the market is ready to play ball.

"We really believe that by trying to relieve pressure on the coast, we're going to see a huge influx of large players," says Dan Jensen, a principal with Kessinger/Hunter in Kansas City. "As the local players, we really felt it was important to be the first guys to market."

Jensen's optimism is all but required for someone in his position. His firm's spec warehouse, budgeted at \$28 million, comes at a time when the area's industrial market is in the midst of unprecedented expansion.

At the end of the third quarter of 2007, Colliers Turley Martin Tucker reported year-to-date absorption at 3.5 million square feet. This in turn drove the vacancy rate down to a satisfying 7.4 percent at the end of the third quarter in 2007, which is the lowest point since 2001.

According to CTMT's market report, the four-year period from 2004 to 2007 is set to close with more than 12 million square feet of net absorption. Histori-

cally, this has been in the form of build-to-suit projects for progressively larger users. Now, with Kessinger/Hunter's investment, the stage is set for large-scale speculative development.

"Kansas City has historically not had a high degree of velocity," says Jensen. "In the Chicago and Dallas markets, you build a building like this and they may not even project six months of downtime because it will be absorbed so fast."

Not so with KC, he says. The year's biggest projects have all been build-to-suits, which makes spec a risky proposition. Luckily, Kessinger/Hunter is developing the Lone Elm site with an equity partner, which will ensure the viability of the project as leasing efforts ramp up. At least eight users are expected to be on the market for more than 100,000 square feet of space in 2008, according to a CTMT market report.

Despite the prominence of Kessinger/Hunter's project, one wonders where the national firms fit into this equation. As it turns out, they've opted to develop an entirely different product in Kansas City: intermodals.

Plans for two next-generation railyards were unveiled in the last 12 months, making 2007 a watershed year for KC's logistics efforts.

In May, Burlington Northern Santa Fe (BNSF) finalized plans with the Allen Group, a developer out of San Diego, to build a 1,000-acre, \$850 million intermodal in Gardner, Kansas, about 30 miles southwest of Kansas City. The effort is predicted to launch more than seven million square feet of development at the newly formed Logistics Park Kansas City.

This is Jensen's ace in the hole. Despite any eyebrows that might be raised in response to Kessinger/Hunter's Lone Elm project, the fact remains that the site is less than seven miles away from the proposed BNSF intermodal. That fact is not lost on Jensen, who is prepared to wait as long as necessary to pull in the right tenant.

"We have an equity partner who is solid," he explains. "There's no pressure. When the time's right, we'll be ready to make a deal."

Similarly, Centerpoint Properties is leading with an intermodal of its own at the former Richards-Gebaur Air Force site. The 1,300-acre development is planned around a 370-acre railyard and an adjoining 830-acre industrial park. The site is already in use as an automobile transit center, but Centerpoint plans to bring the entire region to life as a full-fledged rail/truck intermodal over the next five years.

Now that KC is several years into its logistics revival, it's clear where the trend is going. Business-to-business users (auto parts distributors, for example) need to be close to industrial centers like Detroit or Chicago. Business-to-consumer centers, however, prefer locating huge warehouses in affordable metros with superlative transportation infrastructure. This type of user has seized upon Kansas City as a nexus for development.

In the last year, several build-to-suit developments have been delivered to support this notion. Musician's Friend completed their relocation to a 700,000 square foot build-to-suit this year. Two more sizable build-to-suits for Kimberly-Clark Corp. and Corporate Express are planned for completion by year-end. This comes on top of Pacific Sunwear's recent 441,000 square foot project announced last year.

Obviously, the only real gauge of the market's strength will be in Kessinger/Hunter's leasing efforts at Lone Elm. Six hundred thousand square feet is a lot of space to fill, but Jensen says his firm has its ear to the ground for prospective tenants.

"If you [have] a 200,000 to 300,000 square foot requirement looking in Kansas City, we're going to see you," he affirms. And once the Lone Elm warehouse comes out of the ground in Olathe, chances are you'll see him too.