

# Kansas City is ready to ride on rail's rise

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Warren Buffett's \$44 billion railroad bet has Chris Gutierrez feeling pretty good about his bet on Kansas City's industrial real estate market.

"I think 2010 is going to be a gold rush for us," said Gutierrez, president of **Kansas City SmartPort Inc.**

One reason is that all leading retailers, importers and third-party logistics companies have been looking at increased use of rail for supply-chain savings, he said. That bodes well for Kansas City, the nation's No. 2 rail center and home to two new rail-truck intermodal hubs, including the **BNSF Railway Co.**'s planned \$250 million facility in Edgerton.

On Nov. 3, Buffett's **Berkshire Hathaway Inc.** agreed to pay \$34 billion and assume \$10 billion in debt to become BNSF's sole owner. That may or may not affect the timing of its project in Edgerton, where a 2010 construction kickoff hinges on receipt of a \$50 million federal stimulus grant.

But Buffett's investment sends a strong, corroborating signal to those weighing Kansas City sites and greater reliance on rail, said Bill Crandall, president of **Allen Group-Kansas City**. The firm plans \$500 million worth of warehouse space around the BNSF hub.

Mark Fountain, a senior vice president in **Jones Lang LaSalle's** Kansas City office, said rail is the No. 1 reason he is excited about the area industrial market's prospects. His No. 2 reason is an influx of new industrial sites and, perhaps, speculative buildings.

"We're about to add 4,000 acres of industrial sites that can handle big-box buildings," he said. "Two or three years ago, we were getting noticed by these big-box players, but we didn't know where to put them. Now our market is being re-engineered before our eyes."

With the addition of the BNSF hub, the metro area will have three sites capable of handling large industrial users requiring rail. The other two are **Northland Park** at Missouri Highway 210 and Norfleet Road and the **CenterPoint-KCS Intermodal Center** at U.S. Highway 71 and Missouri Highway 150.

Fountain has pitched all three to a user considering this area for a 600,000-square-foot distribution center, and despite ongoing economic challenges, other large prospects are hovering.

One is the **Robert Bosch Tool Corp.**, which is being represented by Dan Jensen, a principal of Kessinger/Hunter & Co. LC who has placed some big bets of his own on the local industrial market.

Jensen leads a partnership, **KH Jensen LLC**, that completed a 602,000-square-foot spec distribution facility in Olathe last year. After Bushnell Outdoor Products' lease of 221,800 square feet in the building last month, 250,000 feet remain. When that is gone, KH Jensen plans to build an 823,000-square-foot spec building in its nearby **I-35 Logistics Park**.

Mark Long, a senior vice president of **Zimmer Real Estate Services LC**, said speculative construction — or construction without a tenant already signed — also has been considered at the CenterPoint-KCS Intermodal Center, where **CenterPoint Properties** of Chicago has spent \$30 million to create pad-ready sites for as much as 5 million square feet of buildings. But consistent interest from prospective build-to-suit tenants indicates that Gutierrez may be right about that gold rush, Long said.

"So we keep thinking we're not going to have to build spec," he said.

Tim Feemster, director of global logistics for **Grubb & Ellis Co.** in Dallas, agreed that a rush for Kansas City industrial sites may be in the offing. Although brokers and tenants have tended to focus on building costs during site selections in the past, Feemster said that misses an important point: Rent represents less than 5 percent of total logistics costs, and transportation accounts for more than 50 percent.

Feemster said rail is the second least-expensive way, after ships, to move freight long distances. It's about \$700 a truckload cheaper than truck for freight moving from Los Angeles to Chicago, he said. That difference will grow as the cost of diesel fuel goes up.

Not all prospects require on-site rail, however. Many tenants are taking a second look at Kansas City after determining that they can get

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by with two-day truck delivery to their end users.

“A number of companies have decided that one-day delivery isn’t as important as they thought,” Fountain said. “So suddenly, Kansas City makes a lot of sense because we’re within two days of most places in the United States. ... I think two-day delivery and rail will elevate us enough that we’re going to start winning more of these distribution center selections.”

### **Going Intermodal**

Three intermodal freight centers, which will house more than 17 million square feet of warehouse and distribution facilities, are being developed in the Kansas City area.

#### **KCI Intermodal BusinessCentre**

**Location:** Along Interstate 29, immediately southeast of **Kansas City International Airport**

**Transportation modes:** air and truck

**Developer:** **Trammell Crow Co.**

**Estimated cost:** \$232 million

**Size:** 800 acres, with 5.4 million square feet of buildings planned

**Status:** Phase 1 infrastructure is under way to support 1.8 million square feet of buildings on 180 acres.

#### **Logistics Park Kansas City**

**Location:** Along BNSF Railway’s southern transcontinental main line, near 191st Street and U.S. Highway 56 in Edgerton

**Transportation modes:** rail and truck

**Developers:** BNSF Railway and The Allen Group-Kansas City

**Estimated cost:** \$750 million, including about \$250 million for the BNSF intermodal hub and about \$500 million worth of buildings

**Size:** 1,000 acres, with more than 7 million square feet of buildings planned

**Status:** On hold due to temporary downturn in rail-freight volumes. Plans call for 2010 kickoff of construction of BNSF intermodal hub if \$50 million federal stimulus grant is approved early next year.

#### **CenterPoint-KCS Intermodal Center**

**Location:** Along **Kansas City Southern** Railway Co. line, near U.S. Highway 71 and Missouri Highway 150

**Transportation modes:** rail and truck

**Developers:** Kansas City Southern and CenterPoint Properties

**Estimated cost:** \$300 million for Phase I industrial park development

**Size:** 1,340 acres, with nearly 5 million square feet of buildings

**Status:** KCS intermodal hub is operating, and \$30 million worth of infrastructure development to make building sites pad-ready has been completed.

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