# Dramatic Changes on Horizon for Area Distribution

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The recent announcements of new distribution centers in the area for Musician's Friend (700,000 sq.ft.), Pacific Sunwear (400,000 sq.ft.), JI Case (500,000 sq.ft.) are larger than typical facilities for Kansas City. This is a trend that is here to stay. National developers are now looking seriously at Kansas City as one of the next ring of cities that will see larger distribution centers.

Earlier in the 20th century and primarily after WW II, Kansas City was well-established and well-known as a distribution city. Located in the center of the country, Kansas City was on the top of the list for corporate America as a distribution hub. Kansas City has been traditionally ranked behind Chicago for rail usage. In the time period through the mid 1970's, corporate America's manufacturing and distributing operations were usually housed under one roof. Take a minute and drive through the old Fairfax or North Kansas City industrial areas and you'll see faint signs on the buildings of great American corporate names such as Massey-Ferguson, John Deere Company, Whirlpool. Many of these companies no longer have distribution facilities in this area, though their products are still widely distributed here.

In the early 1980's, widespread change began to occur with the deregulation of trucking. This made it much more cost-efficient to move things by tractor-trailer and at the same time, provided much more flexibility for companies. Rail use slowly began to dissipate. This phenomenon of rail abandonment continued well into the 1990's, when many rail-served buildings removed the rail to allow for more truck loading, primarily because of the lack of use of the rail. The buzzword of the late 1980's for America's manufacturers was "just in time" inventory. Spurred by cutting-edge concepts, mostly by the car manufacturers Ford, General Motors, etc., manufacturing plants would not house parts on site, but instead have parts delivered from regional facilities in a "just in time" manner for manufacturing. Rail companies, as part of their continuing struggle to do business in the 1990's, began their own consolidations, Burlington Northern with Santa Fe to name one of many. In cost-cutting moves, the rail companies also began to abandon tracks to many individual buildings by removing switches and no longer maintaining trackage. So many of us in the real estate business have marketed buildings that appear to have rail access but there's no service available. The only way to get that service is to be a major user of rail.

During this time after truck deregulation, Kansas City fell down the list as a top 5 distribution city. Companies wanted to be able to deliver goods overnight to major population centers. For example, Memphis, Indianapolis, northern New Jersey, Nevada, Dallas and Miami routinely see facilities of 500,000 sq.ft. and over, as they can all reach the majority of the population overnight. Kansas City regrettably was centered in the middle of little overnight access to major population areas. We became a regional distribution area with facilities of 50,000 to 100,000 sq.ft., rarely exceeding 200,000 sq.ft.

All of these factors now bring us to the evolution today of transload facilities. One of the most significant developments that is occurring in our city for the distribution of goods is the proposed Burlington Northern Santa Fe rail hub in Gardner, Kansas, a $1.2 billion investment by the railroad on 1,000 acres. American companies are importing more and more of the goods that they distribute, much of which comes from China and the Far East. This new hub will allow companies to pick up containers using traditional truck servicing, and deliver them directly to their facilities. The future of rail is not to be sideloaded directly to your building, but to use these transload facilities, thus allowing for flexibility for companies and allowing rail companies to invest in these hubs to provide better service to the customer.

Another very significant development is the new intermodal routes opened by Kansas City Southern

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Railway. These will connect the Ohio Valley and the Kansas City routes. Initially, this route will serve California and Phoenix, with plans to extend to the Dallas-Ft. Worth area and Mexico City by the end of 2006.

The other route ties the fast-growing port of Lazaro Cardenas, Mexico to the southeastern United States. Eventually this service will extend to Houston and Kansas City. This announcement already has Richards-Gebaur Airport preparing for development by Center Point Properties. This port is growing because it is an alternative to the overcrowded Long Beach port and yet still is on the Gulf of California side of Mexico, thus not requiring a trip through the overcrowded Panama Canal. Intermodal backups are occurring in Chicago hubs so movement through Kansas City could save two to three days. Because of our broad agricultural base, Kansas City may see backhauling of gluten and wheat to the Far East, where demand is high. This could be a significant added economic opportunity.

A recent Cushman & Wakefield survey showed that the average age of America's truck drivers is 55 years old. With the continuing crumbling of America's interstates, all of us would be safer with fewer trucks with older drivers on the road. When you see a train loaded with containers, that train represents approximately 200 fewer trucks on the road. There is even discussion that Congress may get involved to further this transformation.

Finally, Smart Port, a local economic development agency, is nearing full approval of a Mexican Customs Inspection Facility near Kemper Arena. This facility will allow truck deliveries to clear customs and pay duties in Kansas City and proceed to Mexico.

Many of us in the industrial real estate business think that it is Kansas City's time to "shine" over the next decade.

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