

Storage Speculators

Developers build warehouses expecting tenants to come.

STORY BY HUGH WELSH



Building speculative distribution centers is nothing new in Kansas City. But building distribution centers exceeding 100,000 square feet is an altogether new phenomenon. “Bigger boxes have been common on the coasts for years,” says Dan Jensen, principal and director of development for **Kessinger/Hunter & Co.** “And like a lot of things, this paradigm shift took awhile before it reached Kansas City. But now it’s here, and it’s hungry.”

As Kansas City’s transportation and shipping sector grows stronger, more mega-sized warehouses will be needed by businesses to store and ship products. Anticipating a future demand for warehouse space, investors are building speculative warehouses near airports and rail lines without a tenant or a buyer.

Recently, Kessinger/Hunter announced plans to build a 600,000-square-foot speculative distribution center in south Johnson County, situated next to the new 400,000-square-foot **Pacific Sunwear**

distribution center in Olathe. Although Jensen likes to think of Kessinger/Hunter as a trendsetter, Mark Sonnenberg, a senior vice president at **Colliers Turley Martin Tucker**, is assured similar deals are in motion and other developers are “waiting to get their debts in tow” before making the pronouncement.

“Kansas City is in desperate need of speculative development,” says Sonnenberg. “So, though at one time it was highly unusual to put up a building of this scale minus a tenant, I think now that if you build it—regardless of size—they will come.”

The reasons for the influx of monstrous bulk warehouses are many. For one, distribution has become more consolidated with more and more manufacturers recognizing the efficiency in storing goods in larger warehouses.

Jensen says that the 600,000-square-foot warehouse Kessinger/Hunter plans to build by the end of next year will be able to reach

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80 percent of the population within two days of ground transportation.

“The goal of any consumer or consumer product company is to put warehouses closest to the people who are purchasing the products, preferably inside two days,” Jensen says. “And Kansas City is pretty darn close to those people any way you cut it—west, east, north and south.”

Sonnenberg says that right now the south is experiencing an unprecedented population boom, particularly in Texas, Georgia, Florida and Arizona. And with **Kansas City Southern**, one of the nation's premier north-south railroad companies, partnering with Chicago-based **Point Properties** to develop an international freight gateway in the south Kansas City corridor that could result in 7 million square feet of distribution space, the city will be in a prime position to capitalize in the southern U.S. “Kansas City's rich supply of well-organized rail and highway networks are the apple in the eye of many a manufacturer,” Sonnenberg says.

Speculators are banking that the real estate situated in these key shipping and transportation areas will increase in value and prominence. However, the true impact that speculative building is having on real estate prices is, at this point, unknown. And there is certainly risk involved where there is no guarantee that investors will see a sizable return on their projects or even find a buyer. “Right now, Kansas City is a highly competitive real estate environment,” Sonnenberg says. “There's a lot of risk involved, but it's a calculated risk.”

The potential of the KC Southern international freight gateway combined with **Burlington Northern Santa Fe's** commitment to build a \$200 million intermodal facility in Gardner, Kansas—creating 12 million square feet of additional distribution space—won't necessarily propel Kansas City to first-tier status among cities in the shipping and transportation industry. The industry

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averages a billion square feet of distribution space compared to KC's 200 million square feet. Sonnenberg projects KC standing toe-to-toe with some of the stronger second-tier markets including St. Louis, Indianapolis and Memphis. This anticipated growth is what's spurring the speculative development.

Among the major areas conducive to new large-scale distribution warehouses is **MCI**. The 640-acre property is responsible for more air cargo than any airport in the Kansas, Iowa, Nebraska and Oklahoma region. MCI and **CB Richard Ellis Group** plan to build a 300,000-square-foot speculative distribution center.

Sonnenberg, however, is skeptical about how developers will take to the land-lease situation currently in place that allows MCI to maintain ownership of the land beneath the prospective building. A negative associated with land-lease agreements is that the property might be harder to finance and, therefore, harder to sell.

A longtime area of relevance both in residential and industrial real estate development is Johnson County. "Johnson County is about as proven as it gets," says Sonnenberg, whose real estate firm will build a 450,000-square-foot distribution center for **Kimberly-Clark** at the **New Century Air Center** in Olathe.

And Jensen says that as soon as his firm can digest its 600,000-square-foot speculative warehouse in Olathe, there will be ample room left for seconds. "Once we get this one up and running, we fully intend on doing another spec warehouse of similar if not larger proportions," he says.

All in all, Sonnenberg says that between 700 and 1,000 acres are under contract in the KC area. Besides about 100 acres being under contract at MCI, Sonnenberg says that another 200 acres are in play in southern Johnson County and a whopping 335 acres are up for grabs in Riverside. "It's a knock out, drag out sort of game," Sonnenberg says. "But, it's a healthy game for Kansas City." **KCB**

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