REDEVELOPMENT DOMINATES
CHICAGO SHOPPING CENTER SCENE
Experiential retailers move in as industry adapts to wave of shuttered stores.

By Camren Skelton

The grocery and restaurant sectors continue to thrive across metro Chicago, as evidenced by the 5.9 percent annual increase in food store sales in 2016 and the 4.4 percent rise in sales at drinking and eating places. By comparison, sales in the apparel and accessories category rose only 1.9 percent.

“The highly competitive Chicago restaurant market continues to grow with numerous new concepts entering the market,” according to locally based consulting firm Melaniphy & Associates, which has tracked annual retail sales throughout the metro area since 1986.

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RETAIL REINVENTION CASE STUDIES
Entertainment, restaurants are common link to redevelopment strategies.

By Kristin Hiller

Change is in the air for the retail real estate sector in the wake of a string of store closures and retail bankruptcies across the country. The shuttering of hundreds of Sears and Kmart stores has been particularly well-chronicled. Macy’s and J.C. Penney have announced sweeping closures as well. The pruning of underperforming stores by retailers has forced many mall owners to search for new anchor tenants, creating opportunities for reinvention of prime space.

In 2015, Sears Holdings sold 235 Sears and Kmart-branded stores and interest in an additional 31 stores to

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INDUSTRIAL DEVELOPERS HAVE HOT HAND IN KC
Intermodal railways and centrality give the market an edge.

By Kristin Hiller

Development in Kansas City’s industrial sector is booming, especially construction of speculative space. In 2016, developers delivered 8.8 million square feet of industrial space, 8 million of which was speculative, according to CBRE.

But that’s only part of the story. In 2016, industrial tenants in the Kansas City market absorbed 5.8 million square feet. What’s more, the 3.3 million square feet absorbed during the first two quarters of 2017 means the market is on pace to surpass last year’s total, according to market experts. The market has now achieved 23 consecutive quarters of positive absorption.

The only reason for any rise in vacancy is the increase in development and speculative completions, says David Ronsick, research coordinator with CBRE. For the year, Ronsick projects about 5.8 million square feet of speculative completions. The vacancy rate for Kansas City’s industrial market stood at 5.6 percent at the end of the second quarter.

The maturation of Kansas City as an industrial market really began to take place after the Great Recession, according to David Hinchman, first vice president with CBRE. Farmland

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National Retail Tenants Enter, Expand into Kansas City Market

Self-Storage Demand Remains Strong in Midwest As Supply Grows

The Middle Ground: The Next Great Opportunity for Chicago Multifamily
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Industrial Developers Have Hot Hand in Kansas City

has quickly been transformed to accommodate industrial facilities in order to keep up with the demand from e-commerce and automotive industries.

As trucking regulations changed in 2013, shortening the maximum average workweek that truckers could drive to 70 hours per week, industrial-type businesses began to view Kansas City as a desirable location for their properties.

Since then, the Kansas City industrial market has hit a home run, says Hinchman, pointing out that developers have taken on a Field of Dreams mindset. “If you build it, he will come,” was the famous line in the 1989 movie starring Kevin Costner. In Kansas City, the developers keep building and the tenants keep coming.

Economic Boost

Beyond Kansas City’s well-known advantages of centrality and intermodal railway connectivity, there are several organizations in place to help maintain the market’s success.

The Kansas City Area Development Council (KCADC) is a private, non-profit organization representing the economic interests of the greater Kansas City area, which includes 18 counties and 2.5 million people stretching across two states: Missouri and Kansas. The economic development group’s role includes attracting new companies and talent, enhancing awareness of the area’s assets, promoting the region and facilitating relocations or expansions.

Tim Cowden, president and CEO of KCADC, says the organization has an expansive role to help companies locate and expand in Kansas. The industries the organization is currently trying to recruit include alternative energy, advanced manufacturing, biocience, distribution and value-added food processing, according to Barbara Hake, business development consultant.

There are several incentives in place to reduce costs of establishing or expanding industrial operations in the state, says Hake. For example, Kansas has exempted the personal property tax on commercial and industrial machinery and equipment.

A number of sales tax exemptions can be used for remodeling costs, new machinery and equipment and tangible personal property.

Intermodal juggernaut

Just south of downtown Kansas City, Edgerton is home to Logistics Park Kansas City (LPKC). Anchored by BNSF Railway’s newest intermodal facility, LPKC is a 1,700-acre, master-planned distribution and warehouse development. The park currently includes 9 million square feet of completed warehouse and distribution space.

Another 2 million square feet of space will be delivered by the end of this year for a total of 17 buildings, according to Colby Tanner, assistant vice president of economic development at BNSF. NorthPoint Development is the project developer.

Several tenants have signed large leases at LPKC this year. Spectrum Brands’ Hardware and Home Improvement division is combining operations from California and North Carolina into one central location: a 927,112-square-foot distribution center at the park.

Meanwhile, United Parcel Service is developing a 197,000-square-foot facility in time for the holiday shipping season. Horizon Global, a manufacturer of towing and trailer equipment, will occupy a new 512,000-square-foot distribution facility with operations expected to begin by year’s end.

As industrial development continues and LPKC experiences continued business growth, BNSF will invest to further enhance the facility, according to Tanner. Since its opening in 2013, BNSF has increased the capability of the intermodal facility by enabling direct rail service and adding three additional electric cranes. Eight cranes are now on site.

“We see the LPKC development continuing to bring growth and commercial opportunities to the Kansas City region,” says Tanner. “At full build-out, we expect to see the LPKC intermodal facility capable of more than 1 million container lifts per year.”

LPKC also provides tenants with an optimal location for warehouse and distribution centers in America’s heartland. In fact, 80 percent of the country can be reached from LPKC by truck in less than two days, according to Tanner, and 100 percent of the nation can be reached within three days.

Other benefits provided by LPKC for industrial businesses include lower costs and higher efficiencies because moving freight by rail is faster and more affordable than moving solely by truck.

“Customers are always looking for ways to take cost out of the supply chain, while adding increased efficiencies back in,” says Tanner. “Inland ports, like LPKC, give businesses the opportunity to do both on a continual basis. They save on fuel, time and...
Sweet spot is specific
All quadrants of the Kansas City industrial market have experienced a surge in industrial development, according to Hinchman of CBRE. The strongest submarket is South Johnson County, which was already thriving before the intermodal facility was built. Other areas undergoing a development boom include Olathe and Lenexa, Kansas.

The sweet spot for these speculative buildings is around 550,000 to 700,000 square feet, according to Hinchman. Companies are selecting these types of buildings for efficiency and ability to quickly move product in and out.

Kansas City-based VanTrust Real Estate LLC develops all property types, but is highly active in the Kansas City industrial market. In Olathe, Kansas, the firm’s Lone Elm 716 project is currently in the lease-up phase.

Two industrial buildings spanning 716,000 square feet make up the Class A property. VanTrust is in the process of planning the next round of development at the site, according to Rich Muller, executive vice president of development at VanTrust.

Driving site selection decisions are economics and the availability of labor, according to Muller.

“Competitive environments exist on both sides of the state line with the highest concentration of activity continuing to occur in the northeast and southwest quadrants of the metro area,” he says.

Who’s buying, selling
In the first half of 2017, VanTrust was the top seller in the Kansas City industrial market with a $24 million disposition of one property, according to Real Capital Analytics. VanTrust sold the newly constructed Lone Elm 515, a 515,132-square-foot property located in Olathe, Kansas. NorthPoint Development was the top buyer during the same time period, purchasing one asset in Riverside, Missouri, for an estimated $20 million.

There is still a good amount of development-friendly land available at reasonable costs in Kansas City compared to more congested markets like Chicago and the coasts, says Hinchman.

Muller of VanTrust is bullish on Kansas City industrial development for a number of reasons: its location within major transportation corridors, a strong and skilled workforce, pro-business stance on both sides of the state line and low cost of living.

As for speculative versus build-to-suit development, Muller notes that speed to market is a key decision point for tenants coming to Kansas City. Prospective tenants are looking to enter the market as quickly as possible. VanTrust currently has approximately 5.8 million square feet of speculative industrial product in various phases of development.

“Being able to deliver the right project quickly has become the first hurdle a developer needs to clear to have a chance of being competitive,” he explains.

That competitiveness has paid off for developers in quickly finding solutions for prospective tenants. Last year, Kansas City ranked second only to Chicago for total completed industrial space in the Midwest (Hinchman is quick to point out that Chicago’s market is four times the size of Kansas City’s 268 million square feet).

“That felt really good,” says Hinchman. “We’ve been predicting this [development spree] for years because we saw all that Kansas City had to offer.”