

2005 Kansas City Economic Development Report





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Port of call

The Lazaro Cardenas-Kansas City Transportation Corridor could change the way product is brought into the US and transform the Kansas City market into an international distribution center.

n 2002, a strike by the International Longshore and Warehouse Union brought the import and export of product at West Coast ports to a standstill.

From the northern port of Seattle south to San Diego, the strike left ships at sea and export shipments sitting in warehouses. It was a wake up call to the logistics and distribution industry that other ports of entry options were needed.

Today it isn't the threat of strike that companies fear though; it is the continually growing number of vessels and containers entering and leaving these ports while they try to increase capacity to handle more volume.

Nearly three years after the strike container volume is increasing

and more products are being imported into the United States from the Far East than ever before with much of it arriving via container vessels into ports on the West Coast. There is growing talk of the inability of existing ports to handle the new volume.

A 2004 article in the CalTrade Report stated that some companies importing from the Far East might start to consider taking the ships through the Suez and Panama Canals to bring the cargo into the ports on the Eastern Seaboard of North America. This is becoming a reality and now the ports on the East Coast are being stretched to the limit with a 65 percent increase in overall container traffic since 1998.

The situation has led to opportunity for an seemingly unlikely place far from the ocean – Kansas City.

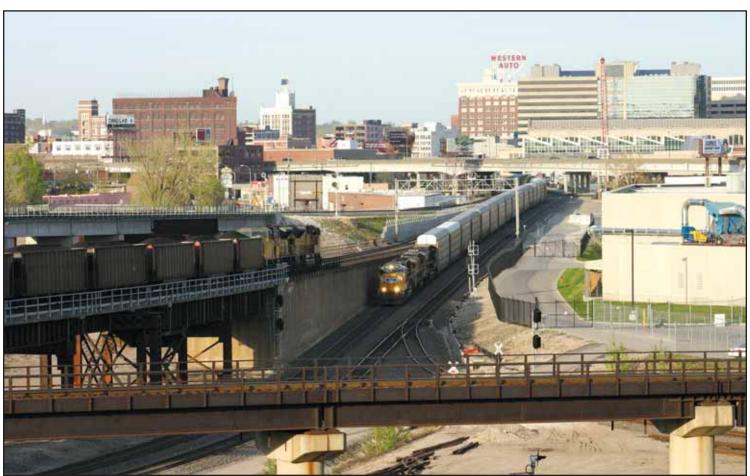


PHOTO BY BILL COBB

The Kansas City Southern Railway Co. (KCSR) jumped at the chance to create a single through-line from the rapidly modernizing Mexican port of Lazaro Cardenas to Kansas City.

On April 1 of this year, KCSR completed the purchase of the controlling interest in TFM, a Mexican railroad, creating a union of KCSR, TFM and The Texas Mexican Railway Co. (TexMex). The lines will operate under common leadership creating a seamless transportation system that can bring containers and product directly from the deep-water port of Lazaro Cardenas to Kansas City.

To further help this system to grow, the Mexican government reviewed its policies toward container importation, reducing the bond charges that had been as high as \$100,000 per container for US bound shipments, and looked at its Pacific ports as an economic driver that could also alleviate some of the stress on US coastal ports.

At the port of Lazaro Cardenas, Hong Kong-based Hutchison Port Holdings, one of the world's largest deep-water port developers, is putting more than \$290 million into an expansion project. This could grow the cargo handling capacity of the port to more than 2.5 million TEUs (20-foot equivalent units) per year possibly by 2008, up from its current capacity of 180,000 TEUs.

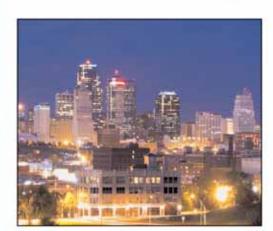
"We have a vision that sees the corridor as a major secondary trade corridor between

"Communities that can build their markets to help get product to market faster are going to win."

 Robert Marcusse president and CEO of the Kansas City Area Development Council

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A BRIEF HISTORY OF THE KANSAS CITY SOUTHERN RAILWAY CO.

Founded in 1887 by Arthur E. Stilwell, The Kansas City Southern Railway Co. (KCSR) was built on north-south axis while other railroads were being built running east and west. Stillwell visualized a railroad from the heart of the US to the Gulf of Mexico to move agricultural products for export to an ocean port via the shortest possible land route.

The railroad was completed in the late 1800s from Kansas City to Port Arthur, Texas which is named after Arthur Stilwell. Stilwell also visualized building a railroad from Kansas City to Mexico to reach the Port of Topolobampo, the shortest land route to the Pacific Ocean to make Midwest grain competitive in the Asian market. While the vision was not realized in his lifetime, KCSR never stopped the pursuit of the vision to reach Mexico.

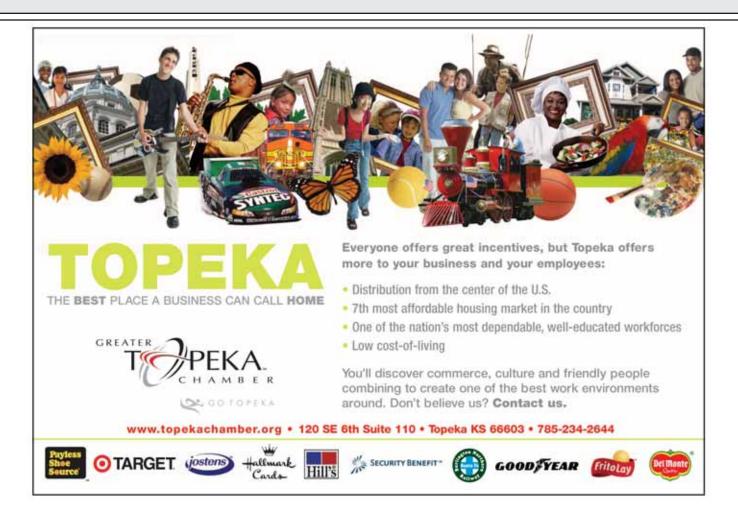
In the mid-1990s, major rail mergers were underway in the western US, allowing two major rail carriers to control approximately 90 percent of rail traffic west of the Mississippi River. At the time, KCSR was a smaller, regional railroad whose very existence was threatened by these consolidations. The holding com-

pany, Kansas City Southern Industries Inc. (now Kansas City Southern) either had to ready itself for sale or grow to survive. It chose to pursue a strategy to invest in Mexico, almost a century after Stilwell's vision.

Today, KCSR has been brought under common control with The Texas Mexican Railway Co. and TFM SA de CV to form a rail network with primary lanes stretching from Kansas City, Missouri to Lazaro Cardenas to Veracruz, Mexico and from Dallas, Texas to Meridian, Mississippi. The Kansas City Southern holding company and its four railroads are known as the NAFTA Railway, providing seamless rail service for North American shippers.

A Class I railroad, KCSR operates over approximately 3,100 track miles in 10 central and southeastern states. Among the US Class I railroads, KCSR has the shortest route between Kansas City, the second largest rail hub in the country, and the Gulf of Mexico. KCSR also boasts the Meridian Speedway from Dallas, Texas to Meridian, Mississippi, which is the fastest growing and least congested east-west route in the US.

-Source: Kansas City Southern



North America and Asia," says Warren Erdman, vice president, corporate affairs, Kansas City Southern Railway Co.

"It will never replace the southern California ports, but it will grow in significance because it services so many significant markets along the way. It will become a substantial trade corridor serving the upper Midwest and other US markets. Many people other than Kansas City have observed the strategic value of this corridor and Kansas City will have a great deal to gain from Latin America."

In Kansas City, The Kansas City Area Development Council, Greater Kansas City Chamber of Commerce and Mid-America Reginal Council in 2001 created a nonprofit organization called Kansas City SmartPort to develop new trade routes and transport freight

"You can move goods in an international trade environment through Kansas City much cheaper than you can through any other area of the country."

- Alfred Figuly president Greater Kansas City Foreign Trade Zone Inc.

more efficiently.

SmartPort was designed to take advantage of the fact that the Kansas City region is the second largest rail center in the US with a large volume of rail traffic traveling through via Union Pacific, Burlington Northern Santa Fe and other railroads.

The creation of the Lazaro Cardenas-

Kansas City Corridor though fit perfectly with the mission of the new organization and Chris Gutierrez, president of SmartPort, says the efforts from Asia to the Kansas City region are going to create a great market for logistics and distribution.

"This project is moving forward with international players. We're not going to replace

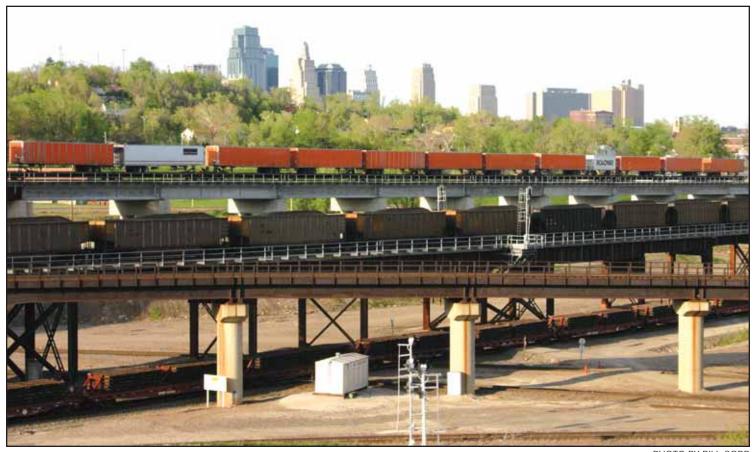
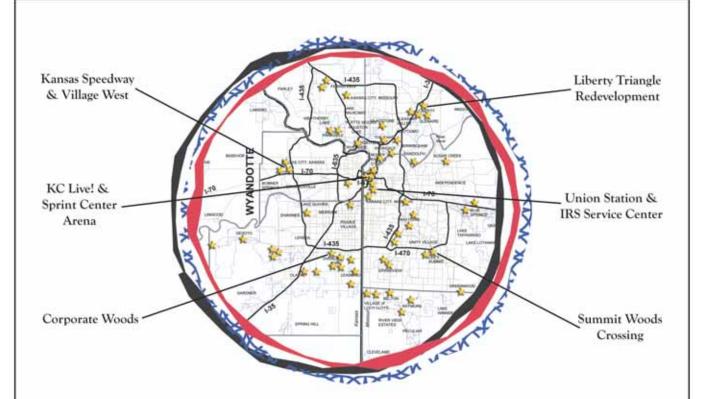


PHOTO BY BILL COBB



WE'RE ALL OVER THE MAP IN GREATER KANSAS CITY

From the Downtown Library to the Kansas Speedway/Village West in western Wyandotte County, from Corporate Woods in Johnson County to the Liberty Triangle Redevelopment in Clay County, from Summit Woods Crossing in eastern Jackson County to numerous projects on the I-29 Corridor in Platte County - we're all over the map in greater Kansas City! Stinson Morrison Hecker LLP is proud to be involved in the numerous projects changing the face of greater Kansas City. Our Real Estate Division attorneys have handled deals nationwide including commercial, retail, office, industrial and residential developments that range from traditional real estate transactions to major redevelopment projects. But we must admit, we take a little extra pride in being a part of so many major transactions that are reshaping our hometown.



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Map courtesy of MARC (Mid-America Regional Council)



The location of the Mexican Customs project is in the Central Industrial District, an area of older industrial buildings some dating back to the Kansas City cattle era. The approximately 15,000 square foot building will be on a five-acre site near rail and highway transportation.

Most places will promise you the moon. We, on the other hand, offer you space.

Platte County, Missouri, home of Kansas City International Airport, possesses a lifestyle measured in acres, not in square feet. Platte County's easy access to the entire Kansas City metro area is why new homes in all price ranges and recreation amenities are being opened here, including Robert Trent Jones Jr.'s Tiffany Greens Golf Club and Tom Watson's National Golf Club of Kansas City.

In addition, internationally recognized companies such as Citi Cards, ADT Security Services, Harley-Davidson and MasterCard International have chosen Platte County for the home of their facilities.

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816-270-2119 • FAX: 816-270-2135 • Email: pfullerton@plattecountyedc.com www.plattecountyedc.com Los Angeles and Long Beach, but they can only expand so much. Everybody's at capacity and you've got a natural deep water port at Lazaro Cardenas that has the potential to have a capacity of more than 5 million containers per year," he says.

An agreement signed in March 2005 between Kansas City and Lazaro Cardenas, Mexico has bound the two areas together in a common cause. The agreement states that both cities will commit to:

• Budgeting a neutral joint marketing campaign designed to attract

trans-Pacific traffic to the Lazaro Cardenas-Kansas City Transportation Corridor.

- Promoting in-bond transfers between the Greater Kansas City Foreign Trade Zone (FTZ) and the Lazaro Cardenas FTZ.
- Working together to promote the development and deployment of innovative security tracing and tracking systems along the entire corridor that will protect the national security of both Mexico and the US.

The railway system will not only bring freight from

"We have a vision that sees the corridor as a major secondary trade corridor between North America and Asia."

 Warren Erdman vice president, corporate affairs, Kansas City Southern Railway Co.

Asia and Mexico, but also provide a rapid route for goods from the US to Mexico. At present the Mexican government is holding talks with SmartPort to establish a Mexican Customs office in Kansas City to speed the flow of goods to Mexican markets as well.

"It's a very practical idea in making Mexican West Coast deep water ports the ports for the Midwest to allow them to grow and cultivate business," says Alfred Figuly, president Greater Kansas City Foreign Trade Zone Inc. "It's less expensive and they're prime locations for movement of goods from Asia. You can move goods in an international trade envi-



Why KC?

- Kansas City is the second largest rail center in the United States.
- Kansas City is the third larget trucking center in the US.
- Kansas City has more freeway miles per capita than any other US city.
- Kansas City is one of only five US cities where three interstates meet (Interstates 70, 35 and 29).
- Kansas City International Airport moves more air cargo than any other facility in a six-state region.
- Kansas City ranks first in the country in Foreign Trade Zone space with 17.6 million square feet.
- US Customs in Kansas City processed \$9 billion in international goods in 2004.

Source: Kansas City SmartPort

ronment through Kansas City much cheaper than you can through any other area of the country."

Attracting the players

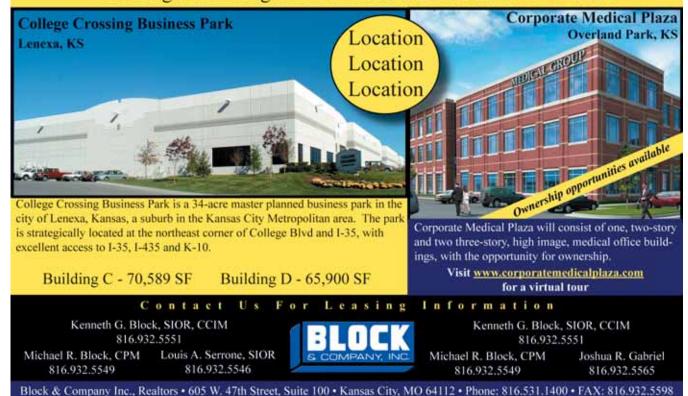
The Lazaro Cardenas–Kansas City Corridor has great potential, but Kansas City still has a major job of educating and attracting national companies and developers to the area to create the critical mass necessary in warehouse and distribution centers.

According to Robert Marcusse, president and CEO of the Kansas City Area Development Council, the SmartPort idea and Lazaro Cardenas-Kansas City Transportation Corridor is not as much about location as it is about speed and cost savings.

"We have a diversified economy with a lot of construction oriented toward the financial and service communities. The advantage of SmartPort and these other projects is to assist companies in speed to market, it's not so much location as it is speed," he says. "Communities that can build their markets to help get product to market faster are



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There are more than 8,000 acres of undeveloped land surrounding Kansas City International Airport with the potential to create more than 250,000 new jobs. The airport ranked 36th in North America last year in air cargo handling with 139,034 metric tones of cargo and nine cargo carriers serving the airport.

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going to win. It is speed to market at a more cost effective rate."

With three major interstates (70, 29 and 35) and a possible fourth (49, direct to New Orlans) intersecting in Kansas City, a growing air freight hub at Kansas City International Airport, 38 percent of the total shipments from the ports of Los Angeles and Long Beach being transported through Kansas City on the BNSF transcontinental route and more than 100 trucking firms based in the region, the pieces are in place to quickly move goods in and out of the region via truck, rail and air.

Still, challenges remain for the area to achieve its goals.

"The whole Kansas City SmartPort is very exciting for the area, however there are definite hurdles and there are a few more out there to get through," says Mark Sonnenberg, a senior vice president, director indus-

"Once someone takes a shot it's going to open the doors because it's cost effective and the time savings are huge."

Mark Sonnenberg
a senior vice president,
director industrial
sales and leasing
with the Kansas City
office of Colliers
Turley Martin Tucker

trial sales and leasing with the Kansas City office of Colliers Turley Martin Tucker, and a SmartPort investor.

"From a national developer standpoint there are cities located closer to the population center of the country, which has kept us from being at the forefront of the really larger distribution centers. We can't change the demographics and the fact that we're located in the middle of the country, but not in the middle of the population."

However, Sonnenberg says it won't take much to turn the tide once the con-

tainers start flowing from Lazaro Cardenas to Kansas City.

"As soon as one company chooses to bring in one type of product in from Asia, just that could cause one to two fairly large industrial

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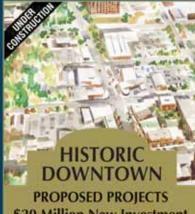
CERNER CORPORATION EXPANSION \$1Billion New Investment

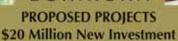


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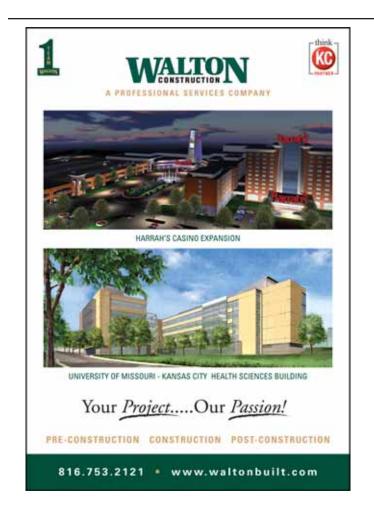


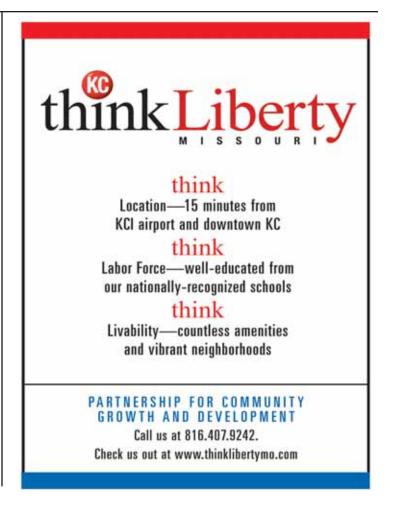
facilities to pop up," he says. "Once someone takes a shot it's going to open the doors because it's cost effective and the time savings are huge."

Currently there are national developers keeping an eye on the area, but because many of them will follow their national and international clients to markets the movement to build any spec buildings has been slow.

The project to redevelop the former Richards-Gebaur Air Force Base into the International Freight Gateway at Richards-Gebaur has Kansas City-based Hunt Midwest Real Estate Enterprises Inc. and Oak Brook, Illinois-based CenterPoint Properties Trust as the developers. Currently KCS operates a vehicle processing center for Mazda of North America and Ford Motor Co.'s Claycomo, Missouri plant on site with no other development is underway yet on the more than 1,400 acres.

"SmartPort seems to be putting all of the pieces together and with the access to the ports in Mexico, time savings, money savings, Richards-Gebaur, CenterPoint getting involved and the expected influx of imported product it makes perfect sense," says Sonnenberg. "But it's going to be two to three years until something like this can really show that it has legs and 1 million to 2 million square feet of construction would be a good indication of that." | KC





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Downtown building boom

ore than \$3 billion of new construction is underway in downtown Kansas City, the culmination of years of planning, hoping and negotiating.

The new H&R Block headquarters, at 13th and Main streets, is the most obvious to the casual observer as the oval-shaped, 500,000 square foot building's superstructure is rising above street level.

When complete the 18-story building will include an underground parking garage, restaurants and retail and bring more than 1,200 employees to downtown each business day.

Nearby, work has also begun on The Power & Light District, a key part of downtown's redevelopment. Baltimore, Maryland-based Cordish Co. is developing the entertainment district.

The first phase of the district scheduled to be completed in summer 2006, will total approximately 425,000 square feet with a total investment

of \$280 million. The second phase, with more than 1,000 residential units and approximately 1 million square feet of office space, represents an \$835 million investment.

With innovative architecture, open storefronts, brick-paved sidewalks, landscaping, parks and, of course, fountains, The Power & Light District will trans-



form downtown Kansas City into a destination for tourists and locals alike.

The other piece of the downtown redevelopment puzzle is the Sprint Arena. The \$250 million complex is scheduled to open in 2007 and will also house the National Collegiate Basketball Hall of Fame.



The arena will seat 18,000 to 20,000 and could possibly be home to a National Hockey League or National Basketball Association team. The Hall of Fame, sponsored by the Kansas City-based National Association of Basketball Coaches, is expected to draw at least 150,000 visitors in its





first year. The Hall of Fame portion of the building is being designed by New York-based Edwin Schlossberg Inc. and will include memorabilia, exhibits and induction ceremonies of legendary basketball players and coaches.

The public/private arena project is being funded in part by AEG (a Los Angeles-based sports and entertainment presentation company), Sprint Corp. and the National Association of Basketball Coaches. The remainder of the financing will be from a combination of tax credit financing, hotel and car rental license fees and user fees.

In addition to these projects, within eyesight of The Power & Light District, the Kansas City Star Press Pavilion has been built. The \$200 million, 424,000 square foot glass enclosed structure houses the newspaper's press operations.

The Kansas City Repertory Theatre is also building a new home



downtown as part of the H&R Block Center surrounding the company's headquarters.

These projects combined with the already completed Central Library building in the former First

National Bank building, the new Kansas City Southern corporate headquarters, numerous residential loft redevelopments and the \$330 million Internal Revenue Service Regional Service Center that is under construction are part of the \$3.3 billion building boom in downtown Kansas City happening since 2000. | KC





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