

# Industrial companies join property ownership trend

BY PHIL LACERTE | CONTRIBUTING WRITER

Historically low interest rates and an eagerness to diversify their investment portfolios have persuaded many owners of small industrial companies in the Kansas City area to own, rather than lease, their facilities.

"We've seen that trend rising dramatically since about 2001," said Nathan Anderson, principal/director of brokerage for Harbinger Property Group LLC.



Anderson

Anderson said low interest rates were a large factor in the trend. In addition, some owners of small industrial companies, like other investors, suffered during the recent stock market downturn.

"Some owners in the 45 to 50 age range are looking ahead to retirement, and they're trying to recover some of their stock market losses," he said.

Chris Herre, president of the Rose Cos. Inc., a Kansas City-based construction company, agreed that small industrial companies are increasingly likely to want to own their space.

"Very much so," he said. "If you can buy a building and the mortgage isn't much different than your lease payment was, why not capitalize on rising property values? You might spend \$1 million for the land and building, but down the road it'll be worth \$1.5 (million) or \$2 million. That's a great return on your investment."

Herre said property tax abatements and other incentives offered by some cities to business park developers also are helping to fuel the trend. Two of Rose Cos.'s projects, the Kansas City Road Business Park and the Parkside Business Center, both in Olathe, have been granted tax incentives, and Herre is erecting buildings primarily on a build-to-suit basis.

"Some of these people couldn't afford to build on their own, so they're buying into business parks where there are some tax incentives available," he said.

He said most of his clients have five to 40 employees and need 5,000 to 30,000 square feet of space.

Anderson said the idea of owning property is particularly attractive to small industrial companies with about \$1 million to \$10 million in annual gross sales.

"Above that, companies, especially publicly traded companies, don't really like having real estate in their portfolios," he said.

Companies that have large, fixed equipment also are more likely to want to buy their business properties, Anderson said.

"Some companies, like a printing company, might have to spend \$300,000 to bring someone in from outside to install a press, so they might be more inclined to own because they don't want to be forced to move," Anderson said. "If a company is just distributing widgets, they're more light on their feet, and moving is less of a problem."

Anderson said industrial condominiums — a hot trend in some markets — have not caught on yet in Kansas City. He's not sure they will.

In a condominium business park,

business owners buy buildings and pay money to an association that handles maintenance.

"There are a couple of those kinds of projects that have popped up in the last few years, in Independence and in Riverside, but I think the association idea is new to a lot of Kansas City companies," he said. "And land prices aren't as high in Kansas City as they are in markets where these kind of projects are more common."

Jason Cupp, chief executive officer for Highland Outdoor, an Olathe landscaping company, went through the process of deciding whether to lease or own beginning in the fall of 2004.

"We had an ownership change at the company, and we had to be out of the facility we were in in Kansas City, Kansas," he said. "We would have loved to have the time to own our own facility, but we only had four or five months."

Cupp got together with Anderson, who located a building for lease in Olathe.



**'I JUST stress the importance of doing your research.'**

Jason Cupp  
CEO,  
Highland Outdoor,  
an Olathe landscaping  
company

"Nate (Anderson) was smart enough to put language in that would have allowed us to buy the building prior to the expiration of the lease if we wanted to," Cupp said. "We negotiated a purchase price in advance."

Cupp said it appeared Highland Outdoor probably would not exercise its option to buy.

"Our business has changed quite a bit since then," he said. "We're more focused, we've added business segments, and we've gotten more strategic in terms of

staffing. It turns out we're not going to need as much space as we thought we would before."

Cupp said he thinks his experience provides a lesson to other business owners going through the own-versus-buy decision.

"I'm more of a property owner type of guy; I own some residential units, and I understand how attractive it is to have a revenue stream coming from an investment that's going up in value," Cupp said. "But any business owner needs to have his fingers not only on the pulse of where a business is, but where it might be going before they make an investment that might turn out to be erroneous."

Cupp said he has begun meeting with Anderson once again to discuss the possibility of having a facility built to house Highland Outdoor.

"Nate and I have started talking again about building or purchasing a facility and the kind of facility we might be looking at," he said. "I just stress the importance of doing your research."

Phil LaCerte | LaCerte is a freelance writer in the Kansas City area.

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