University of Missouri Technology Park at Fort Leonard Wood

EXECUTIVE SUMMARY

Business Operation

In association with the state of Missouri, the University of Missouri will be the managing partner in developing a business research park on Fort Leonard Wood. It will own 55 percent of the project, while the Missouri Technology Corporation (MTC) will own 45 percent. MTC will represent the interests of the state of Missouri in this development.

The mission of the park will be to provide locations on the post to businesses, agencies, and organizations that support or enhance the missions, activities, and strategic goals of Fort Leonard Wood. Business ventures involved in technology development compatible to Fort Leonard Wood's missions will be primary targets in the first and succeeding years of the business research park's operation.

Initial development will occur on 62 acres to be leased from Fort Leonard Wood that is served by water, sewer, electricity, gas, and paved roadways. This non-excess land will be leased to the university for 33 years, with a 33-year option.

Fort Leonard Wood will be paid $500 per acre per year, plus seven percent of net revenue. The university plans to lease from the Army in a phased approach, and will make payment only as it activates parcels for development or sublease. Ground leases are based on a fair market value of $30,000 per acre discounted by 40% to $18,000 due to the fact that tenants cannot own the land but are limited to leases. This is expected to grow as the technology park is developed and occupied.

This park will be developed and managed in much the same manner as the Missouri Research Park owned and operated by the university in St. Charles. Because there are no realistic space limitations at Fort Leonard Wood, most buildings constructed by the university will be one story in dimension with considerable open space. Due to the inability for private ownership and the terms of the lease, it is expected that subleases for private development will be difficult to market. Therefore, the university will have to actually develop much of the building space to be leased.

A demand survey has projected baseline build-out of 250,000 square feet in the first five years, which represents 38% absorption of the initial 62-acre site. Office space represents 125,000 square feet of the build-out, followed by 100,000 square feet in formal education classrooms and labs, 15,000 in a large-equipment training facility, and a 10,000 square foot warehouse/distribution operation for parcel delivery.

This plan does not include a business case for the university to pursue expansion of its educational offerings on the installation. The university would have to explore this as a separate business case, if it is interested.

The university plans to develop 100,000 square feet of office space in the first five years. The financial scenarios project first year development of 18,000 square feet. The university will finish a portion of this space as multi-tenant, flexible office space. The other portion will be

finished to tenant requests, when possible. Other than this initial anchor space, additional construction will be built to market demand rather than speculation.

Most building space subleases will be adjusted from a base of $15 per square foot. Other than the start-up year, this arrangement is expected to net the development partners (UMS/MTC) a range of 3.3 to 13.1 percent per year, depending on debt service and construction costs.

While the remote location of the Fort Leonard Wood business research park presents challenges, it is blessed with significant built-in demand from military contractors and suppliers to the post. It is also accessible by interstate, rail, and a regional airport capable of landing large airliners.

A business research park on post contains the following inherent advantages.

- All infrastructure available (gas, water, sewage, electricity, fiber optic network)
- Interstate, rail, and regional airport access
- Educated, available labor-force – spouses and young military retirees – at lower costs to employers
- Possible competitive advantage to businesses with affiliation to FLW and its missions, which include Army Center for Homeland Security, Center for Humanitarian Demining, Joint NBC Defense Training Center, Executive Agent for Environmental Integration
- Proximity to UMR
- Secure clean area
- Rural quality of life with affordable costs and special post amenities, such as 18-hole, watered golf course
- Proliferation of higher education opportunities
- State of Missouri focus for business assistance

Participation and support of the University of Missouri System, the State of Missouri, and Fort Leonard Wood is necessary for this project to succeed. All three have sufficient motivation to support the development of a business research park at the Missouri installation.

Market Considerations

The primary incentive for locating in the FLW business research park is "access." Millions of dollars in federal contracts flow through FLW each year. Contractors need space, which is currently either provided by the military on post by contract, or is found somewhere off the post.

Companies who want to develop new research or project contracts could obviously benefit by locating an office near the subject matter experts in the engineer, chemical defense, and military police schools. This is where the ideas are developed that are later published in broad agency announcements or other government solicitations. These experts are also on the development teams to be consulted by contractors who win these bids.

Once the university successfully maneuvers to open this park, businesses will use this avenue to locate on post, and its perceived advantageous access. As park developer, the university controls this access to private on-post space.

Major demand drivers for office/flex space can be classified in the following four general areas.

- Existing and prospective FLW contractors and suppliers
- Degree and non-degree education and training programs currently offered at FLW by seven universities and colleges
- Other federal, state, and local government agencies.

- Supporting commercial activities including research-related businesses, commercial warehouse and distribution, and enterprises that make or sell goods consumed by FLW.

Of these demand drivers, two have the most potential to provide steady and sufficient revenue to support the business research park operation. These are the contractors and education providers. Government agencies represent a fairly significant prospect opportunity, as well. This study has concluded that there is minimal demand, at this time, for the development of specialized space to accommodate basic research and manufacturing activity. Many of the potential tenants, though, are involved in technology development and application, and most of the current demand can be absorbed into the planned office/flex space or in build-to-suit space for single-use occupants.

Research completed in preparing this business plan revealed a number of commonly requested amenities or needs in the Waynesville/St. Robert area. Topping that list are state-of-the-art conference facilities, with smaller meeting and break out rooms. Other desired amenities revealed during interviews include the following.

- High speed telecommunications and Internet connections
- Teleconferencing
- Capability of secret security clearance designation
- Central reception area and administrative support services
- Laboratory space

The following list illustrates the most serious competitors to the FLW business research park.

- FLW Directorate of Resource Management
- Private developers of office space
- Nearby industrial or business parks

Fort Leonard Wood will most likely cease to offer space to contractors free of charge who are not required to be located on post to perform their duties if another option is available. Private developers do not perceive enough return for the risk associated with developing this type of office space near FLW. This private developer risk only increases as the university develops private office space directly on the post. None of the other private industrial/research parks have access to the contractor or education demand inherent in the FLW location.

Comparability analysis of university affiliated research parks discovered recent projects are building out space at a rate of approximately 50,000 square feet a year, which is higher than the historical 22,500 to 24,240 square feet per year. FLW is associated with the more optimistic numbers for the following reasons.

- The FLW park has significant built-in demand from the corporate contractor and higher education sectors that almost no other start-up park project enjoys.
- Use covenants will be more moderate than those typically enforced by university related research parks, and multiple-use development will be encouraged at FLW.
- The economic outlook for the years 2001 to 2006, and related real estate demand, is considerably different than the volatile real estate economic conditions that prevailed during the 1970-90 period when most research parks were launched. These conditions depressed demand and capacity to finance commercial real estate.

A 1999 informal survey conducted by the Association of University Related Research Parks revealed plans by member parks to build an average of six buildings totaling 500,000 square feet in the next five years. The FLW baseline of 250,000 square feet in five years is half that figure.

While there are risks associated with the project, almost all can be mitigated. The most troubling is the planned reconvening of the Base Realignment and Closure Commission (BRAC) in 2003 and 2005. While this could partially or completely shut down military operations at Fort Leonard Wood, it could represent an opportunity rather than a threat if FLW demonstrates an ability to leverage private resources to enhance its mission accomplishments and can be awarded additional missions and commands.

There is no doubt that there is sufficient demand for a business research park at Fort Leonard Wood. Chances for successful development of this park increase if the following objectives can be achieved.

- No more than 15% commons area
- Existence of a park business developer
- Development of internal champion within Fort Leonard Wood to suggest and help develop tenants
- Development of close interaction between Fort Leonard Wood and the University of Missouri-Rolla
- Lowest possible financing interest rates
- At least a 40% equity investment by the university and the state of Missouri
- FLW should cease to offer space to contractors at no cost in military buildings
- Ability to lease space for an average of $15 per square foot
- Preferred construction costs of $75 per square foot, but no higher than $90 per square foot
- Seek government subsidization or investments of government projects within the park

BUSINESS DESCRIPTION

The University of Missouri, in association with the state of Missouri through the Missouri Technology Corporation (MTC), plans to develop a 62-acre business research park on Fort Leonard Wood. The mission of the park will be to provide locations on the post to businesses, agencies, and organizations that support or enhance the missions, activities, and strategic goals of Fort Leonard Wood. The development will be known as the University of Missouri Technology Park at Fort Leonard Wood.

In order to meet initial demand and motivate quicker development, the university will construct an 18,000 square foot building that can be configured for office space. Two large areas will be left open to accommodate configuration to tenant requirements.

In the first five years, the university anticipates developing 100,000 square feet of office space. The most desired tenants for this space are businesses involved in applying technology and those that are technology-based. It will promote land leases to entities that may develop space to fulfill other demands in education, training, warehouse/ distribution, and light (non-polluting) assembly and manufacturing.

As originally conceived, the Army would lease between 200-250 acres to an outside developer to develop a business/research park, demolish World War II era warehouses, and build about 275,000 sq. ft. in total warehouse, administrative and workshop area for the Army to lease back as an Industrial Operations Center. The building would be done in phases. The outside developer would have been a new non-profit development organization formed and owned by the State of Missouri and the University of Missouri System.

Political and Army objections to this approach resulted in a scaled-down proposal, which has been "approved in concept" by the Secretary of the Army. Building a new Industrial Operations Center for the Army is no longer a part of this proposal, but is reserved for a potential subsequent phase of development, which the Ft. Leonard Wood leadership calls the "Full Concept." The highlights of the current "Near-Term Concept" proposal are the following.

- Ft. Wood leases 62 acres of non-excess land to the University of Missouri System (UMS) for 33 years with a 33-year option. The Army has designated specific additional acreage for development by the university/MTC should it be necessary to satisfy demand for the "Full Concept." *(see FLW BRP Segments, segment 1)*
- UMS and the Missouri Technology Corporation, supported by the Missouri Department of Economic Development (DED), fund technology park development. Each entity could conceivably invest up to two million dollars in park development. UMS is the managing partner with 55% ownership in the park and MTC, representing the state of Missouri, will own 45%.
- As managing partner, UMS is responsible for developing and maintaining the park, structuring tenant leases, and marketing to potential tenants. UMS costs will be recovered through tenant leases.
- Fort Leonard Wood (Army) will be paid $500 per acre per year, plus seven percent of net revenue. The university plans to lease from the Army in a phased approach, and will make payment only as it activates parcels for development or sublease. Ground leases are based on a fair market value of $30,000 per acre discounted by 40% to $18,000 due to the fact that tenants cannot own the land but are limited to leases. This is expected to grow as the technology park is developed and occupied.

The university would develop and manage the FLW park in much the same manner as the Missouri Research Park in St. Charles. This plan assumes that similar building and land covenants will be utilized. This model utilizes considerable open space and extensive ground parking. While current trends in research park development are moving toward higher densities, the "open space" model works well for the FLW business research park because of the large amount of land available for development at little cost. No debt financing will be required to acquire land, and the university will have an option on additional land without having to pay to hold this option.

U.S. Army representatives have expressed a desire that technology park tenants should actually support or enhance military missions or activities. Most tenants should meet this preference, as this statement is open to interpretation and the primary demand drivers are in support of military missions and activities. This is not seen as a major restriction on development as U.S. Code 2667 opens with the following statement, "Whenever the Secretary of a military department considers it advantageous to the United States, he may lease to such lessee and upon such terms as he considers will promote the national defense or *be in the public interest*, real or personal property that is 1) under the control of that department; 2) not for the time needed for public use; and 3) not excess property, as defined by section 3 of the Federal Property and Administrative Services Act of 1949 (40 U.S.C. 472)." Italics are added for emphasis.

University-constructed buildings will be limited to one story. Other than the initial anchor building, additional construction will be built to market demand, rather than speculation. However, immediate market demand indicates that the modest size of the planned initial construction will be filled quickly.

The 62-acre site chosen for initial development will require minimal infrastructure development costs. It is already served by paved roads, gas, water, sewage, and electricity. Fort Leonard Wood is served by fiber optic rings provided by at least two suppliers, which can be extended to the proposed development site.

This site, though, is much more remotely located than the St. Charles park. Springfield, located about 85 miles to the southwest, represents the nearest metropolitan area, and St. Louis is located about 120 miles to the northeast. The University of Missouri-Rolla (UMR) campus is located about 30 miles to the northeast, as well. Both cities and UMR are accessed by Interstate 44. Fort Leonard Wood is served by a rail spur, which runs within a few feet of the initial development site. The installation's airport is now considered a regional facility and can land large airliners. It is only 10 minutes from the proposed technology park site.

Local realtors agree that FLW acquired some of the most desirable and easily developed land in Pulaski county. A site actually located on post is desirable for several potential tenants, due to a perception of increased access and opportunity to market to the military. This possibility, though, has never existed until now. A business research park on post contains the following inherent advantages.

- All infrastructure available (gas, water, sewage, electricity, fiber optic ring)
- Interstate, rail, and regional airport access
- Educated, available labor-force – spouses and young military retirees – at lower costs to employers
- Possible competitive advantage to businesses with affiliation to FLW and its missions, which include Army Center for Homeland Security, Center for Humanitarian Demining, Joint NBC Defense Training Center, Executive Agent for Environmental Integration
- Proximity to UMR
- Secure clean area
- Rural quality of life with affordable costs and special post amenities, such as 18-hole, watered golf course
- Proliferation of higher education opportunities
- State of Missouri focus for business assistance

Small city or rural parks do not typically require large amounts of land for development, so the 62-acre site should serve initial development needs for several years. According to this plan, the university will construct 100,000 square feet of office space within the first five years of park operation. An initial 18,000 square foot development is planned, which will be configured to house a business incubator or "executive suite" operation.
This space will be leased primarily for office space. This plan does not address other educational initiatives and associated building requirements the university may choose to pursue in attempting to capitalize on the 3,000 students per year who are enrolled in college level course at Fort Leonard Wood. It is limited in scope to development and management of a successful business research park. It is possible that only 10–20% of the land will be developed by other private developers or specific business tenants through land leases. A successful increase of this number, though, would result in quicker absorption of park land.

PARTICIPANT GOALS AND OBJECTIVES

Participation and support of the University of Missouri System, the State of Missouri, and Fort Leonard Wood is necessary for this project to succeed. All three have sufficient motivation to support the development of a business research park at the Missouri installation.

Fort Leonard Wood

- Additional employment opportunities for military spouses
- Regional economic growth providing more amenities and services to soldiers
- Opportunity for corporate and academic entities who share fort's mission interests to co-locate on the post and enhance mission delivery
- Increased access to university students and faculty to support post missions
- Decreased net infrastructure operation costs through expanded utilities customer base
- Increased value of land
- Increased funds for post operation and maintenance costs generated through lease of underutilized land
- Recapture space now occupied by civilian contractors and higher education providers for mission-related needs
- Accommodate temporary surge demand for space
- Enhance Fort Leonard Wood's ability to not only prevent losses to future BRAC decisions but to attract new military missions and centers through demonstration of active civic partnership and mission enhancement through leveraged private resources
- Possible later-stage development of industrial operations center to replace old, inefficient warehouse buildings

State of Missouri

- Leverage post expansion into greater regional economic growth
- Increased number of technology-based businesses

University of Missouri

- Expanded opportunity for technology transfer
- Increased participation in federally and privately funded research projects
- Increased student enrollment
- Quality work experience for graduate and undergraduate students
- Increased in-state job opportunities for graduates
- Enhanced goodwill with Missouri state government
- Participant in the economic and educational development for the state of Missouri

Missouri Revised Statute 172.273 enables the university to "establish research, development and office park projects in order to promote cooperative relationships and to provide for shared resources between private individuals, companies, and corporations and the University of Missouri." This development perfectly suits the requirements of this law.

PROJECT INFLUENCES

In a joint venture with the Missouri Department of Economic Development (DED), the University of Missouri has investigated the potential of developing and operating a business research park on the grounds of Fort Leonard Wood, Missouri. Fort Leonard Wood (FLW) is an active, growing military base that presents opportunity to populate such a park.

The post's commanding general and Garrison Command, as well the Commanding General of the U.S. Army Corps of Engineers, fully support this proposed development and have championed its approval to the Secretary of the Army and the U.S. Congress. This approval is necessary due to the innovative nature of this project, which essentially locates a private business development project on the grounds of a fully operational military base. To our knowledge, this is one of only two business research park developments being considered for development on an active military base.

In 1999, the U.S. Army moved its Chemical School and Military Police School from Fort McClellan, Alabama to Fort Leonard Wood as a result of a 1995 Base Realignment and Closure Commission (BRAC) decision. These two schools joined the Army Engineer School already located at the Missouri installation. This resulted in the Army's creation of its Maneuver Support Center (MANSCEN) command at Fort Leonard Wood.

In addition to the relocation of the schools, FLW was also assigned the missions of humanitarian demining and homeland security counter-terrorism training. This post operates the Joint Nuclear, Biological and Chemical Training Center, and is responsible for developing the Army's environmental doctrine and associated training. Even though this is an Army installation, it conducts training for all branches of the U.S. military, as well as military personnel from other nations.

The Army has spent over $230 million in construction to accommodate this move. In turn, this has sparked at least another $110 million in private home and commercial development in the surrounding area. The average daily population at FLW has increased from 21,000 to over 30,000. Approximately 12,000 of those are military dependents who have trouble finding employment in the oversupplied job market.