



Gateway Commerce Center: 5,000 jobs and counting




Details

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 Published: 09 August 2015

 Last Updated: 09 August 2015

 Created: 09 August 2015

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Metro East warehouse complex still has room to grow

By **DENNIS GRUBAUGH**

St. Louis developer Mike Towerman got his first look at the land on which Gateway Commerce Center sits in 1992, years before a single wall had been constructed. He admits he underestimated the potential.

“A friend of mine sent me over to look at an opportunity at that very interchange — the radio tower property owned by KXEN,” he recalled. “It had a sign on it: ‘70 acres for sale.’ I thought, ‘What is anybody going to do with this?’”

Little did he know at the time, but Towerman had stumbled onto one of Metro East’s biggest secrets — wide open spaces, just waiting to be developed. Today, 17 buildings later, the answer is pretty clear as to what can be done with the land.

Few could have predicted the economic bastion that Gateway Commerce Center would become. The sprawling logistics empire is the envy of many developers in the Midwest, a hub of warehouse and support businesses from which goods are delivered or shipped around the country. A significant benchmark in the history of the operation was reached this past month when ground was officially broken on an 18th building — the first to be constructed east of Illinois 255, in the Edwardsville portion of the complex. The \$30 million, 717,060-square-foot spec building is being constructed on 53 acres by Contegra Construction Co.

Gateway Commerce Center is bordered, generally, by Chain of Rocks Road to the south and almost to New Poag Road to the north. Running through the heart of it are two north-south arteries, Illinois Routes 111 and 255. Six of the warehouse buildings, plus the Flying J truck stop and a truck maintenance operation, are in Pontoon Beach. The rest are in Edwardsville.



/images/articles/aug2015/p01_towerman.jpg

Mike Towerman, in front of an artist's work of Gateway Commerce Center.

The vision for Gateway began with Rod Thomas, the former owner of Thomas Construction Co. in St. Louis, who was intent on developing industrial parks in both Missouri and Illinois when he and Towerman, a shopping center developer, linked up in 1996.

"Rod and I had become acquaintances. Rod had a vision to build two industrial parks," Towerman said. One was Park 370, along Highway 370 just north of Earth City in suburban St. Louis. The other was a project Thomas had his eye on just outside Granite City, along Interstate 270. He was in the process of assembling ground through farm options. Towerman joined Thomas on Nov. 1, 1996.

"The arrangement was that Rod had the vision and he had the desire and he had the money to launch the projects, but he didn't have the experience or the time to implement them, and that's kind of where I came in," Towerman said.

They called their partnership TriStar Properties and in the years that followed they bought almost 2,300 acres for Gateway, comprised mainly of about 12 former farms. Towerman is president of the company.

The partners' first major deal was the sale of land in April 1997 to a real estate investment trust, Centerpoint Properties, of Chicago. That company built a building leased in April 1998 to Dial Corp.

TriStar opted not to own the building itself because Dial was only committing to five years.

"We thought, 'An \$18-\$20 million building on a five-year lease? Kind of risky.' That was a mistake in retrospect because Dial has now been there for 17 years," Towerman said.

In 1997, Dial was in the process of reducing its warehouse space around the country, consolidating sites into bigger locations. It was part of a trend that a lot of companies were also contemplating. Gateway Commerce Center was getting in on the ground floor.

Early on, TriStar hired a supply chain management consultant who told them that major companies were interested in locating in larger facilities from which they could ship regionally, not just locally. In its first years, TriStar willingly built structures for smaller companies like Lanter Corp. and the former Buske, but it also had its eye on some household names.

It took Procter & Gamble to put Gateway Commerce Center on many brokers' maps.

"When we did the Dial project, which is about 812,000 feet, people (in St. Louis) said, 'Oh, wow. They're going over there?' People kind of wrote that off," Towerman said. "Then, Procter & Gamble came into the park in 2001, and people were going, 'Whoa!'"

P&G, which began with 806,000 square feet, now has more than 3 million square feet — more footage and employees than any other tenant in the complex. The warehouse space at Gateway is among P&G's largest sites in the world.

The other two of what he calls "the Big Four" anchors are Unilever, which occupies two sites in the park for almost 1.8 million square feet, and Hershey's, which owns a 1.3-million-square-foot building.

Roughly half of the 11 million square feet at the commerce center is devoted to home-care products, which helped the complex weather the recession of recent years.

The warehouses at Gateway range from about 90,000 square feet to 1.3 million square feet. Several have multiple businesses operating within them.

The significance of the center has not been lost on elected leaders whose tax bodies benefit from the \$4 million or so property taxes that are generated each year, a number that grows as buildings previously tax abated (through an enterprise zone) come onto the tax rolls.

"Once, this (farmland) might have had 20 farmers, three times a year, touching this ground," Edwardsville Mayor Hal Patton said last month. "Now we have 4,500 to 5,000 workers, every day, touching this ground. What a project; the vision has just been incredible."

The high-end estimate of 5,000 employees is a number far greater than any of the local industries and double what is generally considered the largest employer in Madison County, Southern Illinois University Edwardsville, which has 2,500.

And Towerman said there is room to grow at Gateway: about 700 acres east of Illinois 255 and another 215 acres to the west, available for industrial development. There are also 60 acres of commercial land for future auxiliary services.

The land was originally purchased by TriStar, but as buildings have been sold, so has land. The only outside owner with ground for sale is Trammel Crow of St. Louis, a commercial developer that is marketing about 200 acres.

Towerman said there are numerous owners among the developed properties, and most of them are “institutional owners” such as insurance companies (for example, USAA) and investment firms (like JPMorganChase).

Twelve of the soon-to-be 18 buildings were built for specific tenants. The rest, including the one now underway, were built on spec. Towerman said he believes the acreage east of Route 255 could easily support a series of warehouses, with an overall six million to eight million square feet of space. The building under construction could also be expanded by 1 million or more square feet.

Most of the companies that came to Gateway stayed. Part of that is because of the cost of relocation. But it’s also about the reliability of the Gateway sites, Towerman said.

“It’s a huge endeavor for a company to design their supply chain and conclude they need, say, five warehouses. And, then, to change that? That’s a major undertaking, and if things are working well why would you allocate resources toward fixing something that isn’t broken?”

From the beginning, Thomas asked Towerman to construct “a world-class facility,” and Towerman believes that has been accomplished, from water supply to roads.

Thomas was not available for the interview, but Towerman was asked why Illinois was chosen.

“Some people said we were crazy,” he said. “Rod saw this evolution to bigger buildings, and when you do these buildings you need really large, flat tracts of land.”

Thomas also knew Illinois 255 was being planned at that point. He didn’t see the same opportunities in St. Louis.

“He saw the land, the access, the great visibility and said this might be the place to do it. And he was willing to take the initial risk,” Towerman said.

Many people doubted the project’s potential.

“We were challenged early on by the community and by potential investors who said that since we had tax abatement, and it starts to run when you finish a building and expires seven to 10 years later, that tenants would jump to a new building and get tax abatement all over again,” Towerman said. “That hasn’t happened at all.”

People also expressed concerns about organized labor, worker’s compensation costs, regulation and construction costs.

“There were many objections I had to overcome when we started at Gateway,” he said. “Five-thousand employees later, I’m here to tell you, it ain’t true. I never felt the anti-business environment at all. People have been wonderful to us and I can’t overemphasize that.”

Host communities certainly have reaped the rewards, and they hustled to annex land back in the early years.

“I wish I could tell you the benefit the communities have already gotten from these buildings. It’s pretty staggering,” Towerman said. “I’ll tell you this: When we bought the first 239 acres west of Route 111, the property tax bill for that land was about \$1,800 to \$2,000. The Dial building alone (today) would be about \$560,000. About half of that goes to the Granite City school district.”

The average tax bill in the park is 67 cents to 70 cents a square foot, he said. All the previous farmland combined did not generate the property tax that the Dial building alone does each year, Towerman said.

“This is one place where property tax incentives really worked,” he said.

Gateway has evolved over time, starting out mainly as a distribution center but along the way adding some assembly operations. Among them are “copack or value pack” companies where workers take multiple shipped-in products and rebundle them for reshipping. Walgreen’s has a large “e-fulfillment center,” a highly automated operation to fill Internet orders. Yazaki is also in the park, making wiring harnesses for General Motors.

The newest building, called Gateway East 717, is scheduled for completion in December. Gray Design is the architect, and DTZ will provide leasing services.

Two partners on the new project, Pacific Coast Capital Partners, a private equity firm, and Propper Construction Service, the construction manager, both worked with TriStar on its last project, a 673,137-square-foot spec building that was leased before completion. It is being operated by Saddle Creek Logistics of Florida and houses a large Lowe's distribution center, from which 122 stores can be served in a four-hour drive.

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