

## **Barney Karbank's First Development Project**

In early 1951 Barney sold to the Denenbeim family an old hotel building on the northeast corner of 9<sup>th</sup> and McGee Street.

"It was a good location which I thought could be used as a parking lot," said Barney. "I found a wrecking contractor, a parking operator and put the deal together. As luck would have it, early in 1951 I was walking near my office and ran into Bill Campbell, vice president of Herbert V. Jones & Co., who congratulated me on the hotel deal. He knew I had sold it to the Denebeims. We started talking about another property they had interest in and business in general. "How are things going?"

"Not too bad," said Barney, admitting that he was having a tough time making more lucrative deals.

"Why don't you let me see if I can get you an invitation to attend the Commercial Property Division meeting of the National Association of Real Estate Boards coming up in Chicago in April," said Bill. "It's two days and they limit it to 100 attendees from around the country. I think you'd learn something by attending."

With anticipation and trepidation, Barney received the invitation and flew to Chicago for the "Commercial Property Clinic," the first of many he would attend in future years.

"I sat in on those meetings in absolute awe of what was going on," he said. "The speeches and knowledge of the attendees was so far above my level. I hung on every word."

He was inspired by remarks from some real estate luminaries, including the young Trammell Crow. Crow started his career as a CPA and worked for his father-in-law's milling company in Dallas. Asked to find a tenant for the company's partially-vacant downtown warehouse, he found one for 6,500 square feet. Enjoying the process and challenge, he went into the real estate business for himself in 1948. Four years later, he was a recognized name in national real estate development circles.

A second notable speaker was Max Phillipson, a Jewish émigré from Belgium to the U.S. in the late 1930's, whose family had been bankers in Belgium and other parts of Europe for several generations. Phillipson was a partner in a real estate company in New Jersey with Peter Pasberg, who had gone to college with IBM founder Tom Watson. Watson engaged Pasberg and Phillipson to negotiate deals around the US for new IBM office space. Phillipson and his partner bought land that met IBM's needs, built to their specifications (known as a "build-to-suit"), retained ownership and leased the property back to IBM. In some cases, they leased the land and kept ownership of the building during the life of the land lease. Such was the case for a development they did in Kansas City on ground at 14<sup>th</sup> & Baltimore that they leased from Kansas City Life.

Crow and Phillipson had essentially the same message at the Chicago meeting: the transformation of the United States economy after WWII, the population boom and the new Interstate road system, would give rise to unprecedented economic boom.

“The war is over,” said Phillipson. “There’s going to be inflation. Not like Germany after World War I, but there will be some inflation and real estate will benefit from it. Money is cheap. You can borrow for four percent or less if you’ve got good credit. We’re going to have a new interstate highway system. The country is going through major social changes, which are bound to enhance real estate values. If you people sitting out there don’t take advantage of these dynamics – if you pure brokers don’t start owning some real estate – you’ll be missing the opportunity of a lifetime.”

After the morning session on the second day, he introduced himself, thanked Crow for his words of wisdom and invited him to lunch. Crow couldn’t join him as he had to return to Dallas but told Barney he would be in Kansas City soon to acquire a piece of property in order to build for one of his tenants and would call him to look for property. Crow visited Kansas City a few weeks later and called Barney. When Barney picked Crow up at the Pickwick Hotel to look at land for the warehouse, he kidded Crow about staying in a five-dollar per night room next to the bus station at 10<sup>th</sup> & McGee.

“Why are you staying in such a cheap place?” he asked Crow.

“I’ll be there one night,” Crow said. “The room is clean and, besides, I own the hotel, the Continental Bus Co. and the bus station terminal.”

Barney subsequently sold him a piece of land in the Fairfax District, on which Crow built a warehouse for Sylvania Company.

Though at the Chicago meeting Crow wasn’t available to have lunch with Barney, Barney offered the same invitation to Phillipson.

“I’ve got a meeting for lunch,” said Phillipson, “but a group of us are getting together for dinner tonight in the Cape Cod Room there in the Drake Hotel. You’re welcome to join us.”

In expectation and excitement about the dinner with Phillipson and the others, Barney said could hardly sit through the final afternoon meeting. Nor could he remember what he later had to eat or drink at the dinner.

“I was so mesmerized by what these fellows were saying. How you acquire ground, how you get financing, how you put deals together... It was like being in a classroom with the world’s greatest experts on real estate.”

“The knowledge and wisdom imparted by those men turned out to be as good advice as you could possibly get,” said Barney. “Indeed money *was* cheap, land plentiful and affordable, construction costs low, the country was renewing itself, and inflation covered up most of your mistakes. You almost couldn’t fail.”

After dinner, Barney returned to the Stevens Hotel (now the Hilton) on Michigan Avenue, a more affordable choice than the Drake where the meetings were held. Unable to sleep, unable to think about anything but the dinner conversation, he started to read a Saturday Evening Post Magazine. In the centerfold, an aircraft carrier with Navy planes on the deck caught his attention. At the bottom of the ad, he noticed that many parts used for the ship

and planes were manufactured by the Borg Warner Corporation. He was familiar with the company because the company had supplied parts to the North American Aviation plant where he worked during the war.

“Borg Warner!” as he recalled his reaction that evening. “I recall seeing that name on a building I used to walk past when I was 15 years old on my way to one of my many jobs. This one was in a little auto radio store near 18th and Grand operated by a neighbor who lived a few doors away on Flora Avenue. I would lay upside down on my back on the front seat and install radios under dashboards on Saturdays. The ad said that the corporate office for Borg Warner was on Michigan Avenue in Chicago, almost next door to the hotel where I was staying.”

The next morning, Barney went next door and asked the receptionist if he could speak to the real estate manager about their branch in Kansas City.

“Cold calling is what it amounted to,” said Barney.

The receptionist looked up the Kansas City office in a book and said, “You’ve gotta go to the building next door. The Borg Warner Service Parts Company has a branch in Kansas City and you need to see the president of that division. His name is Mr. Darling.”

In the Borg Warner Service Parts office there were four desks. Barney approached the woman at the front desk and asked her if he could talk to Mr. Darling.

“Sure,” she said. “He’s over at that corner desk. Come on in.”

Barney introduced himself to Mr. Darling and explained that he was from Kansas City, happened to see the ad in the magazine and wondered if Borg Warner might need a new building in Kansas City. ”

Mr. Darling looked at him quizzically and asked Barney to follow him to a nearby office and said to Barney, “Tell this fella what you just asked me.” He did so. As soon as he finished, the men looked at one another and chuckled.

“You won’t believe this,” Mr. Darling said, “but just yesterday we decided to move the branch in Kansas City to something larger in a better location. You need to see Harold Jones. He’s the manager in Kansas City. He’ll look at whatever you have to offer.”

Back in Kansas City two days later, he drove straight to the Borg Warner building 19<sup>th</sup> and Grand, a storefront garage with parts scattered all about on the floor and on racks. Barney asked the man behind the metal counter dressed in overalls to speak with Harold Jones and explained why he was there. The man stopped him in mid-sentence and in a moment of recognition said “I am Harold and I know who you are,” said Jones. “You and I were in the third and fourth grades together at the R.J. Delano School for Crippled Children!”

“Frankly, I didn’t remember him,” said Barney, “but he sure recognized me.”

“We looked at buildings and land,” said Barney, “but nothing seemed appealing until I found a piece of land at 2615 Holmes.” “This will work fine,” said Harold. “See if you can put a deal together.”

The lot cost \$2,000. It had been owned for many years by the family of the secretary of the Kansas City Philharmonic Orchestra. Barney would have to borrow the cost to build the facility for Borg Warner.

“How are you going to pay back the money?” asked his father.

“I can get a lease for ten years with this national company,” said Barney. “They’re going to pay off the mortgage for me.” Arthur thought it was risky but said he’d loan Barney the \$2,000 to buy the lot if he needed it.

“Other than what I’d learned in those sessions in Chicago, I didn’t know what I was doing,” said Barney. “I didn’t have a good contact in the contracting business, so I asked a neighbor who had built a screen porch for my parents if he could recommend anyone for this relatively small job. The neighbor said he and his son, Jim Scarce, would build it for me, so I hired them. They estimated it would cost \$28,000. Then I called an engineer, Leon Maslan, whom I’d met at the Y and hired him to design the building.”

He then set out to find financing for the project. He needed a \$28,000 loan for the 6,865 sq.ft. building (\$4.08 per square foot).

“Commerce Bank said they’d make me the construction loan if I found someone to make a permanent loan. They suggested I try Kansas City Life Insurance Co. Kansas City Life was willing to loan the money, but only if I could get the lease extended from ten to 12 years to be sure there would be enough income to fully pay off the mortgage during the lease term and pay taxes and insurance and a little maintenance.”

Barney called Borg Warner to ask for a 12-year lease. Okay, they said, but we can’t pay more than \$400 a month.

“Can you make it \$410, because the mortgage payments will be \$350 and I have to have enough to pay taxes and insurance and maintenance?”, Barney asked.

Borg Warner agreed. Barney’s profit was about \$10 a month.

“One hundred and twenty dollars a year wasn’t much of a return on a \$2,000 cash investment, he said, “but I decided to do it because it would give me experience and some credibility in case I wanted to do anything else.”

With his \$10 a month profit, he bought a life insurance policy to pay off the mortgage in case something happened to him. Borg Warner occupied the building for 15 years. Barney told his wife that the Borg Warner building project would send their newborn child to college. When the other children were born, he made similar pledges that the next development project would pay for that child to go to college.



**Rose and Barney with their baby daughter**

Barney paid off the mortgage as it became due and his children now own the building. It is leased for \$3,000 a month.

The story of that first development project exemplified Barney's belief that following through on good ideas will have good results and serendipitous effects. That first development project was followed by many, many more, in every major industrial district in Kansas City and in many cities around the United States.

Barney always enjoyed telling the story of that first deal and those who heard it frequently (his children!) never tired of hearing it.



**Barney's first development project at 2615 Holmes**