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Dropping a port into the heartland

By Stephanie Nall and William Hoffman

Retailers have one main concern in mind when they choose the location of a new distribution center, according to real estate logistics consultant Curtis Spencer.

The No. 1 thing when it comes to site selection is this: Where are my customers? Where are my stores? said Spencer, president of IMS Worldwide Inc. It has nothing to do with complex inbound logistics. If I m a retailer, I m going to put my distribution center where I can reach my customers the fastest, the easiest and the cheapest way possible.

But if the determining factor is the domestic outbound reach, convenience and lower costs through economies of scale on the inbound importing side of the equation make inland ports and logistics hubs increasingly popular.

Fiesta Warehouse at inland Port San Antonio moved the first shipments by rail from East Kelly Railport earlier this month. The 3PL delivered to customers in and around San Antonio.

If the Port of Long Beach, with all its great infrastructure, could just be dropped off in the middle of Harrisburg, Pa., Columbus, Ohio, or Chicago or Dallas or Atlanta, you d have the best of both worlds, he said. You d have a distribution center in the middle of the population hub where your customers are and give them the best and least inexpensive inbound service as well.

That is really what an inland port does it ties together two pieces of the supply chain in one facility.

The flood of containerized imports hitting U.S. shores from Asia is redrawing the country s logistics

facilities map, driving a boom in intermodal centers and inland hubs that developers say will last beyond this year's slowing economy.

The intermodal is the big paradigm shift, the realization that (global) trade is increasing, and with that, intermodal is increasing, and that s creating the development of these new logistics hubs, said Richard Allen, chief executive of industrial real estate developer The Allen Group.

As long as goods can be manufactured more cheaply overseas than in destination consumer countries such as the United States, real estate developers say demand for master-planned logistics hubs will balloon. As long as populations grow and world economic vitality continues to expand, that will continue, Allen said. A slowdown in the current container traffic and trading volumes is not going to stop the larger trends.

Many trace the move to inland ports to the Virginia Port Authority. In 1989, the agency opened the 161-acre Virginia Inland Port in Front Royal, Va., about 70 miles west of Washington. The Appalachian Regional Commission describes the intermodal transfer facility as something that effectively brings the ports of Norfolk, Newport News and Hampton Roads 220 miles inland.

More complex logistics hubs have been around for 15 years, but they ve only started to come into their own in recent years as container traffic from Asia boomed into West Coast ports. Approximately 11.7 million containers and trailers were carried on U.S. railroads in 2005, compared with 6.2 million in 1990, according to the 2007 study Integrated Logistics Centers by the Heitman real estate investment management firm.

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The report suggests that the impact of the enormous logistics volume is doing more than pushing boxes onto railroads. The fat pipelines are attracting more demand for specialized handling that include the more sophisticated logistics services working in concert with intermodal transport.

The intermodal facility takes advantage of lower fuel, transport and labor costs available through rail providers and supply-chain savings made from minimizing the unloading and repacking of containers as they proceed from manufacturing source to retail destination.

More than a collection of warehouses or distribution centers, logistics hubs are master-planned communities providing multiple modes of incoming and outbound transportation as well as accessible infrastructure, continuing development and services. We're almost like city hall, said David Pelletier, director of communications for developer Hillwood. If (tenants) are having a problem with their streets, they come to us, and then we approach the municipal and other authorities.

We feel with our Alliance development we sort of developed the prototype of a logistics hub, Pelletier said. Alliance, north of Fort Worth, Texas, opened in 1994, boasting a cargo-focused airport with an adjacent BNSF intermodal facility.

It was the intermodal business, rather than the airport, that helped build Alliance's fortunes, and that developers say is the key to logistics hub success.

Let's face it: If you are in a 1 million-square-foot (distribution) facility and getting 30,000 containers a year, the drayage from six, eight or 10 miles away . . . is probably greater than or equal to the rent, Allen said. The point is, you can't afford not to be adjacent to an intermodal facility if you're receiving a great amount of containers.

Most logistics hubs are near or have on-site intermodal facilities; with space at a premium at so many U.S. ocean ports, containerized cargo often goes direct from the container ship onto trains for processing elsewhere. Logistics consulting firm Tioga Group estimated that 42 percent of containers

arriving at the ports of Los Angeles and Long Beach is distributed this way to the rest of the country.

However, 58 percent is processed through distribution centers in Southern California, such as those at Tejon Industrial Complex, a master-planned development 19 miles from the intermodal site. Barry Hibbard, vice president of commercial and industrial development at Tejon, said his hub's proximity to West Coast consumer markets means it does not need as much intermodal service as inland ports.

I think it depends on who you're trying to serve and where you're located, Hibbard said.

He said corporate emphasis on sustainable development will further propel enthusiasm for large, master-planned logistics hubs.

If you're doing a one-off development, you could never afford the time to figure this out, or raise the money to do it, he said. This is why green initiatives will push toward master planning, because you have to have a meaningful scale to afford to do these broader sustainable developments.

For most users and developers, however, the key attraction to a logistics hub is a nearby intermodal facility, which Allen characterized as oceanfront property.

Large distributors of consumer goods want to be close to the intermodal, he said.

Another advantage to having an inland port located away from the port is that often you can choose routings through different ocean ports and different rail routes if needed.

Even if the Southern California ports of Los Angeles and Long Beach return to the congestion levels of 2004 or if fees there increase dramatically, cargo destined for Southern California consumers and even for those in surrounding western states will remain there, Spencer said.

But discretionary cargo the boxes headed for far-flung distribution centers could be rerouted through new and expanding ports in Mexico, the Pacific Northwest or Prince Rupert. They could also reach

the midsection of the country by going on all-water routes through the Suez or Panama canals to East Coast ports.

Kansas City Southern Railway, a north-south carrier in the Mexico-U.S.-Canada corridor, and BNSF Railway, an east-west carrier of Asian imports moving through West Coast ports, have chosen Kansas City as a location for rail logistics parks.

The development of intermodal rail logistics parks in recent years turned Chicago and Dallas-Fort Worth into vibrant inland ports for international freight. Retailers and large importers built distribution centers near Chicago and Dallas to process containerized imports for distribution in the Midwest and Southwest. Railroads are turning their attention to secondary hubs, and Kansas City is the current object of their attention.

KCS and CenterPoint Properties, an industrial real estate company, this month announced a partnership to develop a former Air Force base in south Kansas City into a 1,300-acre rail logistics hub. Late last year, BNSF and developer The Allen Group announced plans to build a 1,000-acre logistics park in Gardner, Kan., a short distance from Kansas City.

Several national retailers already have regional domestic distribution centers in the area, said Chris Gutierrez, president of Kansas City SmartPort Inc. The KCS and BNSF projects are significant because they will link Kansas City via rail to international gateways such as Los Angeles-Long Beach and Lazaro Cardenas, Mexico, giving Kansas City a tool for attracting import distribution facilities.

U.S. Customs and Border Protection has an operation in Kansas City, so cargo can move there in-bond from seaports and be cleared at the inland port. Designation of the area as a foreign trade zone further enhances Kansas City's potential for attracting international cargo.

While a trickle of cargo is being diverted from Southern California ports, a bigger flow is sure to come at least for the short-term, Spencer said.

He said that with the International Longshore and Warehouse Union contract talks under way, new and increased port and cargo fees and the whole truck fiasco unfolding in Los Angeles and Long Beach, shippers are looking at alternatives for the year.

Asked about Prince Rupert's future potential as a port that will funnel traffic to inland ports, Spencer said that within two years, no one would be asking the question because it will be solidly entrenched in the North American supply chain.

The current sticking point for moving a greater volume of containers from Asia to the U.S. Midwest through Prince Rupert is the ability of the Canadian National Railway to move it. CN is investing in new train equipment, facilities in British Columbia and track along the route. What is still missing, Spencer said, is an intermodal facility in Chicago to handle a large volume of containers. It's like Kansas City Southern talking about its service from Lazaro Cardenas (in Mexico), Spencer said. Where is the intermodal facility to hold the millions of TEUs it is talking about?

Bill Mongelluzzo contributed to this article.