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Logistics in the heart of Texas

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Dallas and Houston clash over everything from business and sports to which city has the better restaurants. Add to the mix which has the better distribution and logistics network as the cities grapple for a greater share of containerized Asian freight and intermodal North American Free Trade Agreement traffic.

The intense intra-Texas rivalry is part of a larger battle that involves cities such as Kansas City, Mo.; St. Louis; Memphis, Tenn.; and even Indianapolis, all of which hope to use transportation and logistics assets to become the next big North American gateway for Asian imports.

However, Dallas will have to cooperate with its old rival if it wants to be the linchpin of a new NAFTA corridor. It needs containers from the growing Port of Houston to feed its nascent inland port. Likewise, a bigger and better hub to the north could drive more traffic to Houston, the dominant port in the Gulf of Mexico. In fact, changing global logistics demands and distribution networks may drive Dallas and Houston closer - whether they like it or not. The inland Port of Dallas, created through an agreement with the city of Dallas, the Houston Port Authority and the U.S. Maritime Administration, is an example of where the competitors may cooperate for the good of both. Some, however, wonder whether shippers need two major distribution hubs only 240 miles apart, or whether the Port of Houston and Dallas might be better off working together as one greater logistics "super-hub" served by the Trans-Texas Corridor, or TTC.

Dallas hopes to become the place where east meets west - literally. It seeks Asian imports in containers shipped from Los Angeles and Long Beach and intermodal freight moving north from Mexico on the proposed \$180 billion Trans-Texas Corridor. Key to Dallas's aspirations are developments in southern Dallas County, where a new Union Pacific Railroad intermodal yard alongside Interstate 45 is a magnet for logistics developers and promises to complement AllianceTexas and its BNSF hub and airport on the northwestern side of Dallas.

The UP facility is a critical part of plans for the Port of Dallas, which signed an agreement late last year with the Panama Canal Authority to encourage the shipment of Asian cargo through the canal and the Port of Houston to Dallas.

Jon Cross, marketing director for the Allen Group, a San Diego-based commercial development firm building a logistics hub near UP's intermodal facility, said forecasts for long-term container growth and the region's burgeoning intermodal capabilities suggest that within 10 years Dallas will be one of the top two logistics markets in the country. "There is so much happening in logistics and transportation in southern Dallas," Cross said.

But skeptics note that freight could flow as easily through Houston to points east and north, including Memphis, St. Louis and Kansas City, as to Dallas-Fort Worth. "I don't think the concept of the Port of Dallas will ever apply, at least not in the way it was originally talked about," said Edward M. Emmett, founder and chief strategist of Emmett Co., an international consulting firm based in Houston.

Emmett, a former National Industrial Transportation League president and Interstate Commerce Commissioner, isn't convinced that Dallas is a logical choice for a global trade center. He sees Dallas as a strong regional hub rather than a major inland port. It is unlikely that it will attract container traffic from Houston, as Houston is unlikely to send work and jobs north, he said. Others, however, argue that the inland port will relieve potential congestion at the Port of Houston.

Dallas also doesn't make sense for Mexican traffic coming up along I-35, Emmett said. The roads and rails that pass through San Antonio and Houston are better situated, and those cities have closer cultural ties to Mexico.

Dallas-Fort Worth is also in competition with many other cities. In June, for example, Kansas City Southern announced that it would begin daily service between the Mexican Pacific Port of Lazaro Cardenas and Atlanta - itself a major intermodal hub - via Jackson, Miss.

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Overdevelopment is a risk in the Dallas area, Emmett said. "I don't think you can start building too many logistics parks. They will eat into each other pretty quick."

That's not the word in south Dallas, where UP's intermodal facility is a magnet for development. "Developers are starting to take positions in south Dallas," said Rob Huthnance, first vice president and Dallas market officer for ProLogis, a major developer and manager of industrial warehouses and distribution centers. "The area is very business friendly, there is less congestion, and land prices are lower than in other parts of the region."

To date, only the northern half of Dallas has been developed, said Bill Blaydes, Dallas city councilman and chairman of the Dallas NAFTA Coalition. Southeast Dallas County has tremendous development potential, and the area is poised to emerge as the second major intermodal hub in the metropolitan area, he said.

UP opened its \$100 million, 360-acre intermodal facility last September. Straddling the towns of Wilmer and Hutchins, the facility is designed to handle 365,000 containers annually and more than quintuples UP's container capacity in the region. In January, the facility received its first Asian container shipment from the Port of Long Beach.

Allen Group is building a 6,000-acre logistics park adjacent to the UP intermodal yard. Called the Dallas Logistics Hub, the park has the capacity for 60 million square feet of development at a 35-year build-out. The project represents a huge commitment to the region for Allen Group, which has developed more than 50 commercial properties in the U.S. It accounts for a major portion of Allen's total portfolio of 7,500 acres of land under development.

Lured by access to I-45, soaring land prices in the northern Dallas-Fort Worth area and the promise of an inland port, Indianapolis-based Duke Realty recently began construction of a speculative, 624,000-square-foot distribution facility adjacent to the UP intermodal yard.

The Dallas region has become a national distribution center for a growing number of companies, said Jeff Turner, Duke's senior vice president. While about 95 percent of containers coming into the UP facility are from Southern California, the prospect of increased NAFTA traffic via Mexican deep-water ports and the Port of Houston led Duke to expand its presence in the region; the new facility is the company's first foray into south Dallas. "We are trying to find the best of both worlds in terms of Asia and Mexico," Turner said.

The surge in industrial development is occurring as the largest road and rail construction program proposed since the creation of the interstate highway system more than 50 years ago gets under way in Texas.

In 2002, Gov. Rick Perry announced a 50-year, \$180 billion expansion of the state's roadways and rail lines. Known as the Trans-Texas Corridor and unofficially as the "NAFTA highway," the project would create a vast new network of passenger vehicle lanes, commercial truck lanes, passenger and freight rail lines and adjacent utility zones. Much of the money for the TTC would be raised through tolls and fees, and parts of the corridor would be built and operated by private companies.

The project's main roadway components are TTC-69, part of an eight-state, 1,600-mile highway that would connect Mexico, the U.S. and Canada, and TTC-35, a 600-mile, 1,200-foot-wide toll road that would extend from Mexico to the Oklahoma border north of Dallas.

The plan also calls for a 600-mile freight-rail line from Dallas to Mexico that could take up to 1 million trucks per year off of I-35. Road congestion is a huge problem in the Dallas-Forth Worth area and throughout Texas because of a fast-growing urban population and NAFTA-related trade.

The Texas Department of Transportation estimates that by 2025 traffic in the state will have increased 132 percent and an average of 260,465 trucks will travel Texas roads each day. Already, 20 to 38 percent of current traffic on I-35 is attributed to commercial trucks.

In March 2005, Perry signed agreements with UP and BNSF to work together to move freight lines out of densely populated urban areas. "The Trans-Texas Corridor will provide unprecedented trade opportunities, a faster transportation system that moves freight and hazardous materials out of city centers," he said.

But the TTC faces many hurdles before construction can begin. Opponents attack the planned use of tolls, foreign investment in U.S. infrastructure and the massive use of eminent domain to acquire roughly 600 square miles of land for the project.

The proposed route would displace close to 1 million residents, half of them minorities; consume more than 2,400 square miles of prime farmland and 13 square miles of parks; affect the habitats of 46 threatened or endangered plant and animal species; include five federally recognized historic sites; and traverse nine aquifers.

A 4,000-page environmental impact statement released in April, prepared by the state DOT and the Federal Highway Administration indicated the portion of TTC-35 between Dallas and San Antonio would be built east of Dallas, disappointing many in the city who want it to run parallel to the existing I-35. More than 50 public hearings are being held this summer on the issue.

The proposed routing would cause major problems for the Dallas-Forth Worth area by failing to alleviate NAFTA-related congestion, Blaydes said. That TTC-35 would be a privately operated toll road will also generate opposition. "No one likes toll roads, but it was considered the only way to get the highway built in our lifetime," Blaydes said.

Developers with facilities near the UP intermodal yard want the road closer to Dallas to facilitate freight movement. Cross said it only makes sense to locate the highway "close to the action," and Turner said it is important for the region's industrial base that TTC-35 be located as close to Dallas as possible.