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## Red-hot logistics parks and inland ports address shippers' distribution needs

By Karen E. Thuermer

The latest prospects for real estate appear dim. Yet for those in the shipping industry, distribution centers are red-hot. After all, even in a slowing economy shippers want their goods fast. Consequently, distribution center (DC) developers have become adept at providing projects designed for flexibility and agility.

Now with transportation costs raging sky high, land becoming increasingly scarce and rents too expensive for sites close to ports of importation, a number of logistics parks and inland ports farther afield are popping up. These draw strength from the availability of ample, inland land, cheaper real estate and multi-modal access. After all, we've all heard the adage "location, location, location." When combining real estate with logistics, this expression is not far from the truth.

"Today development companies are trying to take land acquisition away from high cost and high congested areas," observes Jon C. Cross, spokesman for The Allen Group, a private development company in San Diego. The company is developing significant inland ports and logistics parks.

### INLAND PORT DEFINED

The Center for Transportation Research at the University of Texas in Austin defines an inland port as a "site located away from traditional land, air and coastal borders with the vision to facilitate and process international trade through strategic investment in multi-modal transportation assets and by promoting value-added services as goods move through the supply chain."

Cross adds that a successful logistics park has additional characteristics: access to a major container seaport, an intermodal facility serviced by Class I railroad, a minimum of 1,000 acres of total land, US Customs clearance services, Foreign Trade Zone (FTZ) status, strong local market access (e.g., major metropolitan area), nearby access to north/south and/or east/west interstate highways, and access to a strong local labor pool.

Although inland ports have been around since the Virginia Port Authority (VPA) opened its 161-acre Virginia Inland Port (VIP) in 1989 in Front Royal, VA some 70 miles west of Washington, DC, inland ports are now coming of age. Today inland ports are being developed to operate similarly to VIP's: an intermodal container transfer facility that provides an interface between truck and rail for the transport of ocean-going containers to and from the ports of Norfolk, Newport News and Hampton Roads. The idea is to ship containers by the less expensive means of rail to locations where they can be trucked shorter distances.

Cross defines such projects as akin to "oceanfront property." By locating close to an inland port, a company can reduce its drayage costs. The savings can be considerable -- as high as \$1 million to \$3 million per year, he claims.

"Companies, especially in the Western United States, are looking at all components: transportation, drayage costs, labor, real estate costs," Cross says. "All together, these equations call for an inland location."

## INTERMODAL ORIENTED

California, especially, is seeing its share of logistics parks and inland ports. These offer an alternative to California's congested and expensive locations near Los Angeles/Long Beach. Driving their development in California is that state's overwhelming importation of Asian imports. Despite its 15,000+ miles of highways and freeways, 12 cargo airports, 11 cargo seaports, 18 foreign trade zones, 42 enterprise zones, and 11 cargo seaports, California's infrastructure is bursting at the seams handling increasing international trade.

Consequently, The Allen Group has developed two logistics parks in California's Central Valley: International Trade and Transportation Center (ITTC) and MidState 99 Distribution Center.

ITTC is a 700 acre industrial park with some 2 million square feet in Bakersfield in California's southern San Joaquin Valley. Located four hours from 35 million consumers, the park is rail-served and on the main line of the Burlington Northern Santa Fe Railway (BNSF). It includes an intermodal facility with direct rail service to and from the Ports of Los Angeles and Long Beach that serves shippers and distributors in the western United States. Its MidState 99 Distribution Center is a 488-acre park located in Visalia in the center of California halfway between Bakersfield and Fresno. Current tenants include VF Corporation, International Paper Company, JoAnn Stores, Coast Distribution Systems, Workflow One, Worms Way, Bound Tree Medical, ORS NASCO and DATS Trucking. Over 99% of the California market can be served next day from MidState 99 by UPS.

Also a burgeoning market for international trade, Texas is seeing its share of mega logistics parks. The Dallas Logistics Hub, under development by The Allen Group, operates as a logistics park and inland port on 6,000 acres on the south side of Dallas, Texas. Part of the project was recently designated Foreign Trade Zone status (FTZ No. 39). This means it can provide tenants (US importers, especially retail distribution operations) cost saving

advantages on merchandise processing fees and deferred duty payments.

"The Dallas Logistics Hub is one of the largest intermodal-served inland ports in the country," Cross claims.

The logistics hub is adjacent to Union Pacific's (UP) Southern Dallas Intermodal Terminal with access to four major highways (Interstates 20, 45 and 35 and Loop 9).

"We also have an option with BNSF to put an intermodal facility there," he adds. "If this happens, the project will become be first logistics park in the world to have two railroads offering intermodal facilities."

In addition, Lancaster Airport on the project's southern side, offers air cargo options. Its runway is currently being expanded to accommodate freight and related facilities. Cross adds airports and air cargo facilities are not drivers for industrial development.

"Goods are meant for short shelf life," he states. "They are in and out."

In direct competition with the Dallas Logistics Hub, and located north of Dallas and Fort Worth, Texas is the 17,000-acre AllianceTexas project developed by Hillwood, a Perot real estate development company. Its location 15 miles northwest of Dallas/Fort Worth (DFW) Airport and the \$420-million American Airlines Center and Victory district near downtown Dallas give AllianceTexas the distinction of often a logistics hub prototype.

The one million square-foot distribution facility project opened in 1994. Besides its air cargo focus the project is adjacent to a 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.

Last August, Union Pacific announced plans to build a \$90 million state-of-the-art 300-acre intermodal rail terminal. To be alongside Interstate 35 in San Antonio, the project will advance the city's goal to

establish itself as a NAFTA inland port. UP officials indicate the terminal will process more than 100,000 truck trailers annually when completed in 2008, and will have the capacity to grow to a potential of 250,000 trailers and containers per year. It provides shipper tenants rail and airport service and access to deep water seaports.

Its East Kelly Railport offers direct rail access to the seaports of Houston, Corpus Christi, Long Beach, Los Angeles, and the Mexican seaports of Lazaro Cardenas, Manzanillo, Veracruz, Tampico, and Altamira thanks to its access to two Class I railroads, Union Pacific and BNSF. The Railport is immediately adjacent to the Union Pacific's South San Antonio Classification Yard, which is the destination for most of the local industry traffic. The project also offers direct access to: Dallas, Kansas City, Chicago, and Detroit.

Slated to open this fall, the project's Kelly Field (SKF) will offer an 11,500 foot (3,505 meter) runway that will be able to handle all heavy lift aircraft. Immediately adjacent to the runway is 575 acres (232.7 hectares) of mixed use airport property. The airfield will provide sufficient space on the ramp areas and terminals for quick re-fueling and efficient turnarounds. It is operated under a joint use agreement with Lackland Air Force Base. Both entities are co-located on either side of the runway, which affords the airport exceptional security.

Port San Antonio's entire 1,900 acre site falls under FTZ (No. 80-10) classification.

### **UP, UP AND AWAY**

With the decommissioning of various Air Force bases due to Defense Base Closure and Realignment (BRAC), numerous airfields have come available that offer alternatives for air cargo and adjacent industrial part development. To meet distribution needs and accommodate air cargo, Southern California Logistics Airport (SCLA) in Victorville, CA, a development by Stirling Capital Investment, offers an 8,500-acre multimodal business complex on the former George Air Force Base. The project provides a dedicated international airport. Phase I

includes the 407,000-square-foot Newell Rubbermaid Distribution Center. Another 296,000-square-foot distribution building is set for completion in the second quarter of 2008.

Recently the Victorville Planning Commission approved another 1 million-square-foot warehouse to be built at SCLA by Stirling Capital Investments. Plans call for a total 6.5 million square feet of industrial space over 350 acres.

Likewise, Hillwood has anchored its AllianceCalifornia in San Bernardino, CA to San Bernardino International Airport (SBD), the former Norton Air Force Base with easy access to Interstates 10, 210 and 215. It is also two miles from BNSF Intermodal Container Facility.

SBD has attracted numerous all-cargo aircraft operations that include the Antonov-24, Atlas Air, Custom Air Transport and Evergreen Aviation International. Anticipated total cargo tonnage projected by Southern California Associated Government for SBD is 500,000 tons. SBD is supported by a new 3,048 meter by 61 meter runway. It offers a new fuel farm, US Customs facilities and personnel, and room to construct or expand facilities. Over \$90 million have been invested in major infrastructure improvements that include the runway, hangar and utility upgrades.

"SBD is well positioned as a consolidation/distribution point for both air cargo and truck shipments," states Donald L. Rogers, SBD Executive Director.

ODW Logistics, a Columbus, OH -based provider of logistics and transportation services, recently announced plans to lease 339,980 square feet there. Current tenants include Kohl's, Mattel, Stater Bros., Pactiv, Medline and Pep Boys. Over the past seven years, more than 7.8 million square feet have either been built or are under construction at AllianceCalifornia.

In Ohio, Rickenbacker International Airport in Columbus has received much attention, especially with its anticipated connections to the Port of Virginia via the Heartland Corridor. Recent big news

there is the Columbus Regional Airport Authority's partnership with Norfolk Southern (NS) to create an intermodal facility adjacent to Rickenbacker. The new Rickenbacker Intermodal Terminal is expected to be operational in early 2008. According to the Airport Authority, developing a new rail/truck intermodal facility at Rickenbacker is vital to Central Ohio remaining an advanced logistics center and a key player in global trade. The facility will be used for the interchange of shipping containers between trains and trucks.

### **MIDWEST ADVANTAGES**

The Rickenbacker project will quickly demonstrate how important intermodal is to the Midwest. Freight rail has traditionally played a major role in transporting commodities long distances. Other important Midwest rail centers in Kansas City and Chicago are fostering growth in intermodal transport and the development of inland ports.

Intermodal is key to The Allen Group's Logistics Park project in Gardner, KS, outside of Kansas City. The Logistics Park, a 1,000-acre project in partnership with BNSF Railroad, will operate as an intermodal inland logistics park when it become operational in 2009-2010. At that time, containers will arrive the inland port from the Ports of Long Beach and Los Angeles on a double stack train to the inland port.

"BNSF will rail containers on its southern transcontinental route from Los Angeles to Chicago," Cross says. "The first stop will be Kansas City."

Meanwhile, Kansas City Southern Railway Company (KCSR) and CenterPoint Properties have partnered to develop a 370-acre intermodal logistics park in Kansas City, MO that will offer 6 to 7 million square feet of warehousing and distribution space. Key to the project is KCSR's direct rail service from the Mexican Port of Lazaro Cardenas. Also on site is Richards Gebaur Airport, a former US Air Force base.

CenterPoint's CenterPoint Intermodal Center in Elwood, IL features an ultra-modern, 1,200-acre industrial park adjacent to the 770-acre BNSF

Logistics Park Chicago. With more than 7.5 million square feet developed in less than five years, the industrial park will eventually encompass more than 12 million square feet of distribution centers and container handling yards.

CenterPoint Intermodal Center's primary advantage is the significant reductions in average drayage and demurrage costs per container, due to the industrial park's proximity to the rail yard and its location in FTZ No. 22. Executives estimate that importers at the park can realize savings of \$200 - \$275 per container by locating at CenterPoint Intermodal Center versus locations as little as five miles away. In addition, an on-site container handling yard is being developed to provide approximately 1,500 container positions, offering further savings. Existing customers include Wal-Mart, Maersk Sealand, Georgia Pacific, DSC Logistics, Potlatch, Inc., Sanyo Logistics, Partners Warehouse and California Cartage.

In Rochelle, IL, CenterPoint has also developed its CenterPoint Intermodal Center, a 362-acre development that will ultimately contain more than 5 million square feet of industrial facilities. Just minutes from the intersection of I-88 and I-39 and approximately 70 miles west of downtown Chicago, the park offers single-day access to nearly every major Midwestern market. For customers with air-cargo requirements, the Rockford Airport is less than 30 minutes away.

The industrial park is located in FTZ No. 176, granted to the Greater Rockford Airport Authority. Companies operating at the park will have the ability to consolidate a week's worth of entries into a single Customs entry, saving time and money.

Other CenterPoint projects in the Chicago area include BNSF Logistics Park - Chicago, a 770-acre intermodal facility that opened on the site on the former Joliet Arsenal in October 2002. As the cornerstone of CenterPoint Intermodal Center, this freight logistics center integrates direct rail, truck, transload and intermodal services with distribution and warehousing, all in one location.

### **SOUTHWARD CONNECTIONS**

Also in the company's portfolio is CenterPoint Intermodal Center - Savannah, GA. Located four miles from the Georgia Port Authority, adjacent to Highway 307 and within minutes of I-95 and I-16, CenterPoint Intermodal Center offers access to world-class transportation amenities, including direct NS rail service and access to NS's Dillard Intermodal Yard. The NS Dillard Yard, a domestic intermodal facility, is capable of handling 150,000+ containers annually. It is situated on 40 acres and is operational 24 hours a day. With 250 acres available for development, CIC-Savannah will ultimately contain more than 1.3 million square feet of industrial facilities and 30 acres of container and trailer storage management.

Hillwood recently purchased 69 acres in Jacksonville, FL to build a 601,500 square-foot speculative building. Construction will start immediately with a delivery date of early fourth quarter 2008. Located on the city's Westside, West Point Trade Center is in close proximity to the Port of Jacksonville (JAXPORT) and within two miles of the CSX Intermodal rail facility and the Interstate 295/10 interchange.

"Hillwood believes Jacksonville's demographic location within the Southeast, excellent highway and rail infrastructure, burgeoning seaport, pro-business civic leadership, and abundance of labor make Jacksonville the ideal place for companies to locate their Southeastern U.S regional distribution centers,"

says T. Preston Herold, vice president of Hillwood Investment Properties.

Containerized freight at JAXPORT is expected to be on the increase given plans by two Asian shipping companies to open new terminals at the port. Japan-based Mitsui O.S.K. Lines (MOL) is scheduled to open a new 157-acre, \$220 million terminal later this year. Hanjin Shipping Company plans to open a new 170-acre, \$360 million terminal in 2011. These alone will bring an additional capacity for 1.8 million containers. This new activity will be a large part of the expected quadrupling of containers handled at the port over the next seven years.

In addition, a proposed dredging project will allow the port to handle the massive ships that will begin flowing through the Panama Canal in 2014, when the canal expansion project is scheduled to be completed.

Tim Feemster, senior vice president, director Global Logistics for Grubb & Ellis, identifies the extensive dredging going on by East Coast ports as key to the burst of logistics parks and inland ports being developed to service this market.

"It has to do with the widening of the Panama Canal and the fact a lot of companies are looking at risk factors," he says. "It's driven by West Coast by-pass diversion. A lot of companies cannot afford to have all of their eggs in the West Coast basket."