Winter 2007

Alternate Distribution Locations Serving New Routes from Here to There

By Ellen Rand

Savannah, Dallas, Kansas City, Columbus. These may not be names that immediately leap to mind as major distribution centers, but maybe they should. Changes in goods movement are prompting big importers and third-party logistics companies to rethink their strategies – with the goal of cutting costs and time as well as boosting efficiency and easing the transport of goods from here to there. Hand in hand with this trend is the growing role of railroads, as companies seek to avoid the costs and congestion of truck traffic over roads that are straining under the current pressure of commerce. Thus, inland ports with intermodal facilities continue to be rising stars.

The Center for Transportation Research at the University of Texas at 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." An intermodal facility consists of the movement of entire truck trailers and shipping containers by both highway and rail, using trains for long haul movement and trucks for local pick up and delivery. Such companies as Wal-Mart, Home Depot, Ford, Honda, The Limited, UPS and the U.S. Postal Service are among the many large users of intermodal transportation. Major trucking companies such as J. B. Hunt and Schneider are also large users, as are shipping companies calling at ports on both coasts.

Volume on the Rise

According to the American Association of Port Authorities (AAPA), U.S. ports and waterways handle more than two billion tons of domestic and import/export cargo annually. While the volume has experienced a significant hiccup this year, with a dropoff in housing-related, container-shipped products – such as furniture, lighting fixtures, flooring and tile -- by 2020, the total volume of cargo shipped by water is expected to be double that of 2001 volumes. (According to **Curtis Spencer**, president of the consulting firm IMS Worldwide, 2007 will prove to be flat in growth of container traffic. The average annual increase has been seven and a half to nine percent in North America, but Spencer predicted it would be two percent on the West Coast and five percent on the East Coast.)

Spencer remarked that "Ships have gotten faster, but the supply chain has gotten longer and more complex. Our port capacity is what we have to deal with." For example, there is little room for additional distribution facilities in Los Angeles.

The AAPA defines TEU (or "Twenty-Foot Equivalent Unit) as a standard linear measurement used in quantifying container traffic flows. As an example, one 20-foot long container equals one TEU while one 40-foot container equals two TEUs.

Assuming seven percent growth in container traffic in U.S. ports, there could be an increase from 35 million TEU's shipped in 2006 to 90 million in 2020. Complicating the picture, transportation workers will need ID cards in 2008 and "30 to 40 percent of drayage truckers in Los Angeles won't qualify," he said. Moreover, thanks to the Safe Port Act of 2006, there will be 10 new data elements related to container-shipped goods. That will slow down the process of getting goods from here to there. Spencer also noted that rail infrastructure is growing faster than road development, with investments of $8 to $12 billion a year. Alternative routes will include shipping to the East Coast through the Panama Canal. The role of the Suez Canal will expand as well. Not to be ignored: a rail line from Prince Rupert, Canada to Chicago. As Spencer pointed out, the CN railroad can put an intermodal facility anywhere along the line in Chicago. The western route Punta Colonet in Mexico is expected to make its debut as a distribution hub in 2015, with service from Union Pacific and BNSX followed by Lazaro Cardenas, a Mexico-to-Kansas City connection. Those intent on staying current on goods movement trends would be well advised to pay attention to what such major companies as DHL/Exel, UPS and FedEx are planning, since they "would be number two, three and four after Wal-Mart if their [shipping] numbers were counted," he said, adding that Wal-Mart accounts for one million TEU's annually.

"The real value proposition is knowing where the box gets opened, where you build the building," he said. According to Spencer, the "hottest new inland ports" are located in California's Inland Empire; Dallas; Kansas City; Chicago; Memphis; Columbus; Harrisburg; and Front Royal, Virginia. The growth, unsurprisingly, matches up very closely with projected hot spots for population growth over the next two decades.

Ask the Logistics Experts
Phil Trabulsi, senior director, DHL International Supply Chain advised industrial real estate owners and developers that "Your customer is our customer." He remarked that DHL's customers believe they're paying too much for the supply chain and not getting the service they should; all are seeking ways to improve. Trabulsi advised that there is no "one size fits all" answer for importers, but rather, a combination of traditional channels and innovative channels for distribution. Retailers are big users of innovative supply chain ideas, he said. "If you can move a container for $1,000 less per container, that's a million dollars on 1,000 containers," significant if you are a 10,000-container shipper.

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One supply chain idea that makes industrial real estate owners nervous is distribution center bypass. In a case study example, Trabulsi showed that it takes 56 days for products originating in China to get to a North American consolidation center, a regional distributor and then to stores. However, there is another option that only takes 30 days. The North American distribution center can be bypassed, with products originating in China, going to a China consolidation center (where labor costs are dramatically lower than they are in the U.S.), and from there directly to stores. According to Trabulsi, fewer than five percent of DHL's customers do distribution center bypass. Plus, deconsolidation centers are growing because 40 percent of TEUs are mixed.

Among the emerging programs DHL/Exel has done is Parcel Direct. For a specialty manufacturer of porcelain collectibles, for example, store cartons were built in Asia, with a UPS label in the carton. Shipping goes to two parcel hubs, then to stores. "The whole operation is done in China," he said.

Retailers are also leveraging vendors to own inventory. Product is manufactured and sent directly to a vendor-managed distribution center. In East Coast and West Coast Flow Centers, shippers make decisions about where to send product while it is in transit, about five days before arrival. "It's like a valve," he said. What enables this type of operation is information technology. "You know exactly what's on the ship. We see this becoming more important as retailer supply chains.

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"Importers will continue to try to find the right combination of distribution channels in order to hold down costs and maintain high service levels," he went on, adding that 60 to 70 percent will continue to flow through traditional distribution channels. He also noted that "our customers hire MBAs to understand how their cost elements match up with their customers." Increasingly, the lines between skill sets among real estate developers, shippers and logistics are blurring, as pros from one discipline are hired by another to study and improve goods movement.

A Look at Savannah

The state of Georgia is the second largest importer and exporter of goods to and from China on the U.S. East Coast. Currently Savannah, number five of the top nine ports in the U.S., is the fastest growing on a percentage basis. As **Sam O'Briant**, executive vice president, southeast region, Duke Realty Corporation, pointed out, its Interstate system is an advantage. There are two major rail carriers plus an abundance of greenfield land not surrounded by the city.

The Port handled 2.3 million TEUs in fiscal year 2007. Savannah is expected to handle more than 6.5 million by 2017. There are intermodal rail connections for CSX and Norfolk Southern. Expansion projects include a new intermodal yard and four new super post-Panamax cranes by 2009.

The Panama Canal's expansion, slated to be completed by 2015, will bring a new mega-sized class of ship to Savannah. How large is large? Here is an estimate from the Georgia Ports Authority: one 10,000 TEU vessel carrying capacity equals 188,000 foot double-stack trains, 5,800 trucks or 570 Boeing 747 cargo liners. O'Briant noted that several national developers have planted their flags in the Savannah market. Duke, which purchased a 4.5 million-square-foot industrial portfolio in Savannah, typically caters to retailers who have thin margins, and therefore appreciate the lower drayage costs associated with a location closer to the port. Savannah has also attracted logistics companies that work with shipping companies like Maersk, transferring goods to trains or trucks and continuing on to Atlanta. Duke, like most other companies involved in inland port real estate, follow decisions by shipping companies and railroads to see where they are investing. "It's a function of population growth," he said.

Everything's Up to Date in Dallas and Kansas City

Richard Allen, CEO of the Allen Group, gave this company's perspective on the "new paradigm" in world trade, intermodals and logistics at development '07. The company is developer of four "logistics parks:" Dallas Logistics Hub on 6,000 acres in Dallas; Logistics Park on 1,000 acres in Gardner, Kansas; MidState 99 Distribution Center on 480 acres in Visalia and International Trade & Transportation Center (ITTC) on 700 acres in Shafter, California. The MidState 99 Distribution Center has eight existing buildings totaling over two million square feet of space, all of which are 100 percent occupied. Two new buildings are underway.

Allen has been involved in the Central Valley since the mid-'90s. "Third-tier markets are wonderful if you buy for the right reasons," he said. "If you control the land, you'll control the market or the deal." Visalia offered inexpensive land and labor plus next day UPS to 95 percent of the state.

Allen's "aha!" moment about logistics came in 1997, when he visited the Alliance development in Ft. Worth and learned that the driver of that development's success is its intermodal facility.

"Canada, Mexico and China were our primary trading partners in '06; by 2020 China will be our number one trading partner," Allen said. ITTC got Allen started in intermodalism, featuring three miles of BNSF railroad track, two-day trucking to 65 million people and a faster drive from the Port of

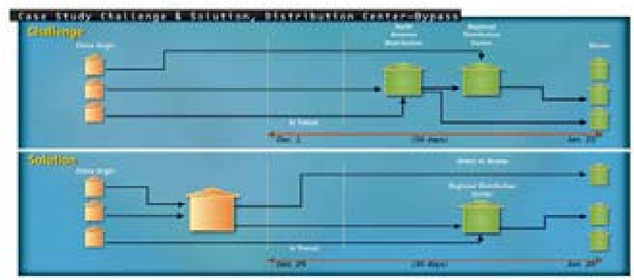
Los Angeles than to the Inland Empire. From a real estate development perspective, Allen believes that changes in goods movement will influence where distribution centers should be built. “You want to be at the nexus of rail lines,” he said.

Allen had learned about a new Union Pacific (UP) intermodal facility being built south of Dallas in 2003. The company acquired large tracts of land around it over a three-year period – Allen refers to it as “oceanfront property.” The resultant Dallas Logistics Hub is being developed on 6,000 acres with two intermodal facilities. The nearby airport will be turned into a cargo airport. The Hub is also a key component of the NAFTA infrastructure and will serve as a major inland port by receiving products from the Ports of Los Angles, Long Beach, Houston, and the new deep-water ports in western Mexico for regional and national distribution.

“The savings [for tenants] are phenomenal,” he said. The company has developed a Drayage and Rental Equivalency Calculator that shows those substantial savings to prospective tenants. In a one million-square-foot facility that accommodates 15,000 containers per year, for example, it would cost $100 per container to dray to Allen’s container park versus going farther north in Dallas for $228. “So the north Dallas lease rate has to be lower to compete with us,” he said. Total per square foot savings for the tenant at the Allen facility: $1.92.

With the aim of improving the flow of goods between Mexico and the United States, Allen has partnered with a Mexican inland port developer to promote a new trade corridor. The agreement links Interpuerto, a Monterrey-Saltillo, Mexico-based logistics hub, and the Dallas Logistics Hub, a 6,000-acre logistics park currently being developed by San Diego-based The Allen Group. The connection of the two hubs is part of a larger movement to improve cross-border trade by expanding infrastructure to boost supply chain efficiency. The partners expect the new corridor to improve efficiency, speed and security, as well as the ability for the two hubs to compete on an international level. By adding a customs pre-clearance zone, imports can be cleared before leaving the port of origin, which should expedite shipment flow and provide additional security for companies operating within the two hubs.

Meanwhile in Kansas City, The Allen Group and BNSF Railway Company (BNSF) finalized the land purchase rights and related pre-development agreements for the development of the Logistics Park in Kansas City. BNSF currently owns 997 acres, with 418 acres dedicated to a new BNSF intermodal facility expected to open in 2009.



New Intermodal Center for Columbus

The major news in Columbus is that the Columbus Regional Airport Authority has partnered with Norfolk Southern Corporation to create an intermodal facility adjacent to Rickenbacker International Airport. 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.

Existing facilities are used to the fullest extent and the Rickenbacker area’s current intermodal facility, Discovery Park, has long surpassed capacity. Norfolk Southern has seen an approximate 15 percent increase in demand for intermodal services year-over-year for the past several years. Because Discovery Park is at capacity, Norfolk Southern is turning away business from the Central Ohio region. The new intermodal facility at Rickenbacker will provide increased capacity and improved levels of service, thereby allowing Central Ohio to regain and expand shipping and economic opportunities, including job creation and other public benefits.