

September 11, 2008

FTZs Prove Complex for Many Tenants

By Kari Hamanaka

With real estate owners working hard to distinguish their international distribution center site from the next industrial complex, achieving foreign trade zone status is becoming an attractive marketing tool to hire industrial users. However, more real estate owners are finding it pays to go the extra step in assisting users with site activation.

San Diego-based The Allen Group recently completed a 500,000-square-foot, three-building complex in the Midstate 99 Distribution Center in Visalia. The distribution center is within a foreign trade -zone granted to the Merced County Board of Supervisors. And while the developer markets the fact that Midstate 99 and its logistics park, the International Trade and Transportation Center in Shafter, are within foreign trade zones, few tenants at either project have activated their sites.

"We do have lots of tenants, and we have exposed them to the benefits [of an FTZ] and had only a few express interest in pursuing it," said Larry Montgomery, director of development for Central California at The Allen Group. There seems to be the need for an education process to make people aware of the benefits."

Those benefits include duty and tariff relief for importers and exporters, but simply moving to an industrial park within a foreign trade zone is not enough to gain those incentives. Individual users must go through the process of activating their site, which involves a business background check and review by U.S. Customs. The entire process takes an average of six months to complete.

Although owners of real estate see the value of being within an FTZ, users may be a little slower to adopt that same belief.

"It's a marketing niche for industrial users," said Jon Cross, director of marketing at The Allen Group. "If you don't have foreign trade zone status in your [industrial] park, it's one less entity that you could lose a deal on."

For the most part, Cross finds that prospective tenants will ask about the FTZ status of a property, but mainly as a precautionary measure should they decide to go ahead with activation in the future.

A 177-acre portion of the Tejon Industrial Complex, at Tejon Ranch, is in an FTZ. The complex is partially in Kern County, an area many have begun to refer to as the "Golden Empire" projected to be the next area to experience a new wave of industrial development after the Inland Empire because it is central to the ports and has cheap land. Therefore, being within a foreign trade zone would only seem to be icing on the cake for importers or exporters locating in that region.

"People have really started to recognize outbound efficiencies obtained by locating in Kern County," said Barry Hibbard, vice president of commercial and industrial marketing at Lebec-based Tejon Ranch Co., "and also the fact that you have dual port -access bringing products from Long Beach and Oakland. You also have great eastbound access of the [State Route] 58, and most people don't get that at first until you show them."

Clayco Ina recently purchased 23.75 acres in the Tejon Industrial -Complex for me development of a build-to-suit warehouse facility for Famous Footwear. The site is located within the FTZ established by a joint venture of Tejon and the Rockefeller Group Development Corp. The two companies also partnered to develop a 606,000-square-foot industrial facility completed in February in the Tejon Industrial Complex.

Clayco's acquisition is what Hibbard described as a supply chain move to be more responsive to the market. Famous Footwear currently has distribution centers in Wisconsin and Tennessee.

A 350,000-square-foot distribution building will be constructed at Tejon for the shoe company, with additional room for a possible expansion.

While 177 acres of the Tejon Industrial Complex received FTZ status after a two-year-long application process, IKEA Wholesale Inc. is the only subzone at Tejon to date that has activated its site to benefit from being within the FTZ, which is an extension of the FTZ granted to the Los Angeles Board of Harbor Commissioners.

According to Hibbard, FTZ site activation is an untapped market for so many different reasons. However, it is the consensus among industrial developers, brokers and FTZ consulting companies that there is a lack of education and proper marketing to make companies aware of the benefits of a foreign trade zone.

"It is rather technical to quantify the benefits," Hibbard said. This is not something a real estate broker would be able to do, and if not something I would recommend developers do."

Additionally, the process to activate a site within a foreign trade zone can be an arduous one with various levels of bureaucracy involved.

Douglas Burr of Visalia-based Burr Commercial is the marketing broker on the Midstate 99 Distribution Center in Visalia and said properties in FTZs do not command higher rents than non-FTZ sites.

"It's just an extra amenity that allows a company to locate somewhere," he said.

Though Burr said tenants do ask about FTZ status, he thinks it will become more of an issue in the future as more products are produced overseas.

Not Just Another Amenity

The question facing real estate owners and consultants is how to get users to see beyond the FTZ as just another amenity alongside higher dock doors or secured parking.

At the Tejon Industrial Complex, Brandi Hanback, managing director of Rockefeller Group Foreign Trade Zone Services, said Rockefeller and Tejon are more involved in making sure companies understand the benefits.

"We're implementing FTZ packets where we're delivering the benefit," Hanback said. "We have an in-house consulting division that works to get land designated and works to help users of real estate activate zones. We take them through the process to go through U.S. Customs; it's not just us telling them. That's the difference between a successful zone and one that's not"

It is not just in California that a little more guidance is in order. The need to educate real estate owners and users is nationwide.

At the national level, less than half of the appraised FTZs are activated, Hanback said. There are 18 designated foreign trade zones in the state, evenly dispersed between Northern and Southern California, with 33 companies having activated subzone status.

Hanback said what is often the case is that real estate owners will seek FTZ status because they presume it will be beneficial, but they lack the expertise to market it correctly to users.

"A lot of times, they think competitively that because someone else may have [FTZ status], they have to have it, but they can't address how it will be used unless they understand how it will benefit them," Hanback said.

The lack of understanding is what has allowed for the emergence of third-party companies such as ITC-Diligence Inc., headquartered in Seal Beach.

ITC activated itself as a foreign trade zone operator at Global Access, the multimodal facility at the former George Air Force Base in Victorville. The 8,500-acre project is being developed by Stirling Capital Investments in partnership with the city of Victorville.

ITC offers other businesses at Global Access the option of operating under FTC as an activated site. ITC then monitors the companies and provides oversight. As a result, David R. Harlow, of ITC, said business participants are able to see the financial and logistical benefits of activating their FTZ site without having to go through the process alone.

Chris Webb, director of leasing and sales for Stirling, said industrial users do need the additional guidance when it comes to navigating foreign trade zones and activation.

"In my experience, it's a benefit to reach out [to users]," he said. There is some level of bureaucracy and paperwork to go through, but there are professionals that can walk a corporation through

that. It's not the major focus of many companies coming to an FTZ, so they're not set up to go through the paperwork."

Prego Inc. is the only participant of FTC's program at Global Access. While the program provides the service on a short-term basis, Harlow said Prego is participating on a long-term basis because of a pre-existing relationship with ITC. Generally, the company recommends participants activate their site within a year from signing up to use FTC as a foreign trade zone operator.

"We then step out of the picture, but we are in the background to provide them with minor management oversight such as third party audit spot checks with customs and filing their annual reports," Harlow said. "We're just no longer the actual activated operator [for them]." ITC also is activated at industrial centers in the City of Industry and Palm Springs, doing most of its work in the Inland Empire and Imperial Valley.

"When we started this [business] five years ago, the one thing we realized in the Victor Valley region is that there's a significant lack of education on the program," Harlow said. "It wasn't that people didn't want to use the program; they just didn't know about it"