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The New Railroad Resurgence

America's railroads are experiencing an unprecedented expansion, and businesses are taking notice as they make their site selection decisions.

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Taking a cue from software language, it might be said that after decades of semi-dormancy, America's railroads are making quantum leaps to "Rail 2.0," a stage of development never before experienced by the industry. One result is that a number of businesses are now thinking differently about how important the role of railroads should be in site selection processes.

Major Investment

The majority of projects underway in this "rebirth" of railroads are being implemented by five major American companies identified as "Class 1" by the Association of American Railroads (AAR). Its members include railroads providing service in the United States, Canada, and/or Mexico. To be considered Class 1, AAR says railroads must post annual revenues of at least $319.3 million. Those matching that criteria are CSX Transportation and Norfolk Southern Railway operating east of the Mississippi River and BNSF Railway, Union Pacific Railroad, and Kansas City Southern Railway operating west of the Mississippi.

According to a February 2008 Wall Street Journal article, American railroads have spent $10 billion since 2000 to expand tracks, built freight years, and buy equipment, with $12 billion in spending still to come. In 2005, Union Pacific Railroad spent $1.3 billion on track improvements across its 33,000-mile system. This past January, BNSF President/CEO Matthew Rose said that this year, the railroad "expects to spend more than $1.8 billion to keep our infrastructure strong by refreshing track, signal systems, structures, freight cars, and upgrading technologies." That same month, Norfolk Southern's Executive Vice President Debbie Butler said her railroad planned to spend $1.4 billion on capital investments in 2008, an increase of $84 million (6 percent) over 2007's funding. Then in April, CSX announced $9 million worth of upgrades to key facilities used to ship coal.

Not surprisingly, such large infrastructure investments are tied to growing employment opportunities, too. AAR reports that freight railroads are expected to hire more than 80,000 new workers over the next six years, and that the highest number of openings will be at the major rail hubs of Chicago, Illinois; Kansas City, Missouri; Seattle, Washington; Los Angeles, California; Memphis, Tennessee; St. Louis, Missouri; and Atlanta, Georgia, along with more rural areas such as Alliance, Nebraska; Clovis, New Mexico; Havre, Montana; Gillette, Wyoming; Galesburg, Illinois; and Springfield, Missouri. In contrast, back in 2002, the industry laid off 4,700 workers.

What's behind all this activity? Simply stated, freight demand is expected to increase a whopping 67 percent by 2020, according to AAR. Much of current and future demand is tied to the increase in America's appetite for Asian imports, the U.S. economy (even though it has slowed), and rising fuel costs.

Traditional and New Freight Product

Over 40 percent of all American freight moves by rail, according to AAR. For Class 1 railroads, the top commodities hauled in 2006 were coal, with 44 percent of tons moved (21 percent of revenue), followed by chemicals/allied products (8.6 percent), farm products (7.6 percent), non-metallic minerals (7.2 percent), miscellaneous (6.4 percent), and food and related products (5.4 percent).

Coal and export grains are truly the “two major lines of business” for rails today, says John Ficker, vice president of supply chain logistics for First Industrial Realty Trust of Chicago, a provider of industrial real estate supply chain solutions. Another growing area is ethanol, he says, which must be hauled due to its inability to travel through a pipeline. CSX, for example, reported a 46 percent improvement in its 2008 first-quarter results thanks to agricultural products, most notably ethanol and feed ingredients.

However, the most dramatic change is that in addition to traditional commodities, the railroads are moving increased tonnage of finished consumer goods at unparalleled levels. “America continues to outsource its manufacturing, and so these products are pouring in through ports on the East and West Coasts,” says Ficker, adding that it’s not uncommon these days for mile-long trains to pull several hundred double-stacked rail containers of consumer goods. “A large portion of these containers go from the West Coast to Chicago, as well as Atlanta and Dallas, really wherever the people are.”

According to Ficker, competition between truck and rail “is marginal at best” in this new logistics world. “It’s not so much competition as it is collaboration,” he says. “There’s enough freight volume for everyone. Some experts say freight growth will double by 2035. We do have a challenge before us, and the solution is found in how we improve supply chain logistics.” Trains produce one-third fewer emissions than trucks, and are three times more fuel efficient. Those realities — combined with ever-rising fuel costs — are behind the forging of new rail–truck relationships nationwide. More often than not, the longer portion of cross-country hauls are conducted by train while the shorter piece is a truck’s responsibility.

As a direct result of railroads moving more containerized goods, companies are now building more new “big box” and warehousing facilities at existing and newly built rail yards, or planning to do so in the near future. These super-charged intermodal sites combining rail and truck services are also spurring secondary-level industrial operations in some areas, as well as supportive non-commercial businesses. Effectively, they function as inland ports, freeing up often congested ocean ports and serving as more efficient movers of containers to prime population and/or distribution centers.

Logistic Hubs

Tim Feemster, senior vice president and director of global logistics for the Grubb & Ellis Company, and a 35-year veteran of supply chain and logistics services, lauds companies that understand that besides labor costs, the key drivers to determining where a site is based should be based on both outbound and inbound transportation. “Transportation costs are two and a half to five times higher than the cost of actually running the typical distribution center,” he says. “Rent is only a very small piece of a center’s cost.” That’s why Feemster advises companies to not only research the benefits of intermodal centers, but also take time to research which one would be best suited to meet their unique distribution or warehousing needs.

There are already some notable logistics hubs in the United States, with some new ones on the horizon:

- Nearly 20 years old, AllianceTexas is the “granddaddy” of logistics hubs. Located in the Dallas–Fort Worth metroplex, this 17,000-acre master-planned, mixed-use community includes industrial, office, and retail space; an inland port; a BNSF intermodal yard; BNSF and Union Pacific rail lines; Fort Worth Alliance Airport, a 100 percent cargo airport; and 6,700 homes. Over 27,000 workers are employed by AllianceTexas’ 170 companies.
- The Dallas Logistics Hub is a 6,000-acre master-planned venue offering up to 60 million square feet for distribution, manufacturing, office, and retail uses. Its first two warehouses, now under construction, are scheduled for completion this summer. The park’s owner, the Allen

Group, says the park is expected to create over 60,000 jobs and have a total economic impact of $5.4 billion when completed in about 30 years. The Hub is adjacent to Union Pacific's Southern Dallas Intermodal Terminal, a potential BNSF intermodal facility, four major highways, and the Lancaster Municipal Airport, a future cargo airport. The park will be a vital inland port accepting products from the Ports of Houston and Los Angeles/Long Beach, in addition to deep-water ports in western Mexico.

- Near downtown St. Louis, Norfolk and Southern provides rail service to Gateway Commerce Center. This 2,300-acre commercial/industrial development site at the intersection of Interstates 255 and 270 connects with four major interstates: I-44, I-55, I-64, and I-70. Triple Crown Services Company operates a 62-acre intermodal facility on Gateway's north side. In addition, the park is close to four cargo-handling airports and the nation's second-largest inland port. Tenants include facilities for Dial Corporation, Procter & Gamble, and Hershey Foods, plus a 1.2 million-square-foot Unilever logistics/distribution facility. Gateway has created 2,000 jobs, and attracted more than $200 million in new investment and nearly 8 million square feet of new construction.
- The 750-acre BNSF Logistics Park Chicago in Elwood, Illinois, is the centerpiece of a 2,200-acre intermodal distribution center and warehouse development. It offers direct rail, truck, intermodal, and transload services, and provides access to key rail routes to and from all West Coast ports. Tenants include Wal-Mart, Potlatch, DSC Logistics, and Georgia-Pacific.
- In August 2007, Union Pacific broke ground on a $90 million, state-of-the-art intermodal terminal in San Antonio. Once operational later this year, the 300-acre rail port is expected to generate $2.48 billion in cumulative economic impact for the region over 20 years. The terminal will accept and ship household goods and similar items destined for retailers and distribution centers as well as auto parts for the San Antonio's Toyota plant. It will serve as a prime NAFTA logistics point for goods going to and from Mexico, as well as commodities moving between San Antonio and Houston, and points beyond. The facility is expected to process 100,000 trailers per year at first, and eventually perhaps 250,000.
- Feemster advises businesses using these and other intermodal facilities — notably those firms importing from Asia — to consider inserting "risk diversification" plans into their overall logistics strategies. "They must take into consideration all the risk levels involved in bringing in all their products through West Coast ports," he says, adding that an increasing number of companies now are altering their supply chain by using California ports as well as coming up through the Panama Canal.

Ficker notes that "people are paying very close attention to the plans of rails." Revitalized and renewed, U.S. railroads are clearly taking a more prominent role in helping America's companies thrive in these uncertain economic times, and remain globally competitive in the decades ahead.