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Logistics

The **Future of Real Estate** is Driven by Transportation

By Daniel P. Leahy, SIOR and Adam D. Roth, CCIM | NAI Hiffman / NAI Global Logistics

Welcome to the resurrection of rail. A rapid increase in intermodal shipments is being driven by driver cost and productivity limitations, highway infrastructure issues and energy concerns (fuel).

These challenges have literally "fueled" the corporate focus on transportation costs, import distribution centers (both coastal and inland), and service. With rising fuel costs, insurance costs and driver turnover; carriers and corporate America are concentrating on how to stay as efficient as possible. Regulatory issues like hours of service and increased emission specifications are adding to the mix creating less capacity and higher costs with higher service levels expected.

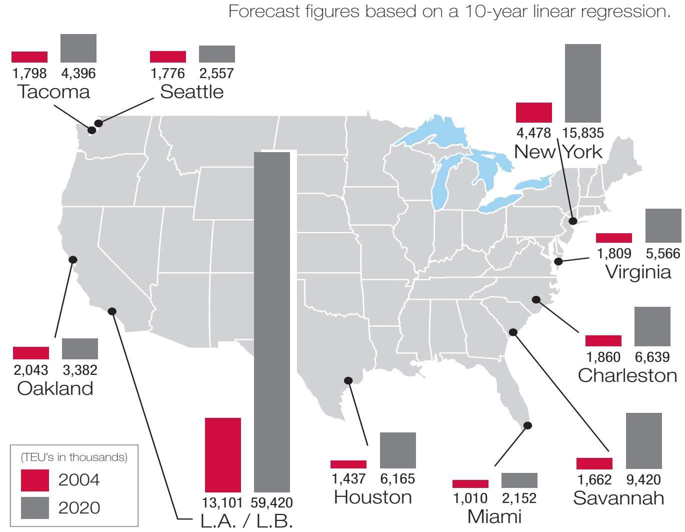
As alternative port sites develop in importance for our country's throughput, transportation lanes will evolve simultaneously. Truckload capacity will continue to be a challenge as the driver labor pool is in decline. The American Trucking Association anticipates that freight volumes will grow by 32.5 percent by 2015 and it projects a driver shortfall of 111,000 drivers by 2014. This will force carriers to be more selective in the freight they handle and reject business they view unprofitable. This push has positioned the railroads to move more intermodal traffic than at anytime in their history. We have seen this increase in the Midwest with the BNSF Logistics Park-Chicago, located adjacent to CenterPoint Properties Intermodal Center in Elwood, which handled approximately 750,000 lifts in 2007 and anticipates handling over 800,000 lifts in 2008, even in our current challenging economic conditions.

This amplifies the importance of site selection and positioning for networks that project a large amount of import volume. Import DCs, dray cost, and Foreign Trade Zones have become more critical to remain competitive. The following illustrates the dramatic increases in projected freight demand.

A global company has to consider how this will affect their supply chain.

Dramatic Increase in Projected Freight Demand

Forecast figures based on a 10-year linear regression.



Source: US Department of Transportation, Metrans National Urban Freight Conference, 2006

These volumes are going to have a significant effect on the real estate market and how the product is distributed throughout the Midwest. As supply chain costs continue to be broken down and scrutinized, the proximity of a client's distribution center to its inbound freight (Inland Port) along with its outbound locations will be crucial.

The below analysis focuses on significant cost savings based on the proximity of a distribution center to the intermodal ramp (dray savings) as well as Foreign Trade Zone (FTZ) benefits. The container volumes shown are estimates that could be generated by a 500,000 square foot distribution center.

Dray Cost Comparison	CenterPoint Intermodal Center Elwood, Illinois	Next Closest Location
Approximate roundtrip dray cost to facility	$ 90	$ 150
Approximate fuel surcharge (45%)	$ 41	$ 68
	$ 131	$ 218
Estimated roundtrip turns per driver shift	**6-8**	**3-4**

Est. Annual 40' Container Volume	Minimum Cost Outside The Intermodal Center	CenterPoint Intermodal Center	**Annual Savings**
5,000	$1,090,000	$655,000	**$435,000**

In addition, a Foreign Trade Zone (FTZ) benefit analysis should be considered based on potential import volume. One of the primary benefits of an FTZ is the ability to process U.S. Customs entries on a weekly basis while maintaining the same maximum processing fee as if entering on a per entry basis. For example: depending on the value of merchandise, there is an average merchandise processing fee of $200 per entry (regulatory minimum of $25 and maximum of $485). **An FTZ allows for one weekly entry of $485 versus a fee per every entry.**

FTZ Benefit Comparison

	Non-FTZ	FTZ	Annual Savings
Annual U.S. Customs Entry Fees (Assuming 2,000 entries & $200 per entry)	**$400,000**	**$25,220** ($485 max fee x 52 weeks)	**$374,780**

The combined effect is illustrated on the table below:

CenterPoint Intermodal Center Dray & FTZ Combined Benefits

Projected annual dray savings	$435,000
Projected annual FTZ savings	$374,780
Combined annual savings	$809,780

Based on a 500,000 SF facility annual savings of $809,780 = $1.62 psf

Take note that the dray and FTZ calculations represent substantial **ANNUAL ONGOING** operational savings. With these benefits, a facility with close proximity to an Inland Port is no longer an option but a requirement. The real estate rental rate is fairly insignificant when the whole picture is taken into consideration and the logistics costs are evaluated. With today's speed of business, it's no longer company versus company but supply chain versus supply chain.

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