



June 2007

## **No water? No problem: Though far from the coast, America's "inland ports" are making a run for a share of the booming U.S.-Asia trade.**

*By John R. Johnson*

If you build it, they will come. The developers of the AllianceTexas distribution hub in North Fort Worth have already proved that. Since its founding in 1989, the 17,000-acre logistics complex has attracted more than 140 corporate tenants, including such heavy hitters as General Mills, Ford Motor Co., and Home Depot. Now, economic development officials in places like Dallas/Fort Worth and Kansas City are hoping that the Field of Dreams theory will hold up in their regions as well.

The "you" in this case are local development authorities and real estate developers—not just in Dallas and Kansas City, but also in San Antonio, Texas; Columbus, Ohio; and Nashville, Tenn. The "it," of course, are the vast logistics parks springing up in the nation's mid-section. And "they" are importers—manufacturers and big box retailers that are displaying an apparently limitless appetite for distribution space.

What's fueling the developers' dreams is the booming U.S.-Asian trade, which has altered the traditional economics of importing. In an earlier era, the notion of "inland ports" would have seemed almost preposterous. The majority of Asian imports were handled at the vast distribution centers that grew up around the ports of Los Angeles and Long Beach, through which most Asian goods entered the country. But mounting congestion problems at those ports have led big importers to seek alternatives. And more and more often, those alternatives include distribution hubs that are located far from any coast.

"The real driver is Asian trade," says Rob Harrison, deputy director at the University of Texas's Center for Transportation Research in Arlington. "As soon as that container growth started to occur, that offered the opportunity to develop a rail network of inland-based ports. We're seeing them in all shapes and sizes."

[www.allengroup.com](http://www.allengroup.com)



### **Texas two-step**

Historically, North American logistics complexes have grown up around commercial airports. AllianceTexas, for example, sprang up on the acreage surrounding the all-cargo Fort Worth Alliance Airport, which opened in 1989. As global trade boomed, however, it became clear that the real draw was not easy air access, but the complex's considerable intermodal handling capabilities. Along with the industrial airport, the site today boasts access to two rail lines, an intermodal terminal, a Foreign Trade Zone, and an on-site customs station.

Taken together, AllianceTexas's facilities and its proximity to exploding population centers in the South and East proved irresistible to a number of national players. "The thing that really helped Alliance take off was when the boxes started to arrive from Asia and were processed at that site for a very large metropolitan area," says Harrison.

Most of the goods arriving at AllianceTexas today originate in Asia and enter the United States through Los Angeles-Long Beach, where they move by rail (via the Burlington Northern Santa Fe) to the intermodal yard at Alliance. From there, imports can be whisked to nearby DCs, many of which are located right on site. The intermodal yard currently handles about 600,000 lifts per year, but its capacity will be expanded to 1 million lifts within three years.

There were some growing pains in the early years. For example, as business boomed, a labor shortage developed. The complex's developer, Hillman, expanded the development to include affordable housing for workers employed at the site as well as

retail stores to serve them. Today, AllianceTexas employs 24,000 full-time workers, and construction of additional housing is under way. The complex is currently only 40 percent built out, leaving plenty of room for expansion.

### **Cross-town rival**

AllianceTexas is about to get some competition from the Dallas Logistics Hub, a 6,000-acre industrial park being developed by the Allen Group. The Dallas Logistics Hub, whose grand opening took place in April, touts itself as the newest and largest industrial logistics park in North America. It is situated adjacent to I-20, the major east-west trucking corridor in the southern United States.

Right now, the centerpiece of the hub is the Union Pacific's 360-acre intermodal facility. Opened in the fall of 2005, the yard currently has a capacity of 360,000 lifts per year, with plans for more. The facility expects to boost capacity to 600,000 lifts per year by the end of 2007.

But the UP may not have the business all to itself for long. Allen Group spokesman Jim Cross says that the Burlington Northern Santa Fe is evaluating the possibility of building an intermodal facility on the west side of the park, which would make the Dallas Logistics Hub the first logistics park in the world to boast two intermodal facilities.

Currently, the complex has just two spec buildings, which it hopes to have leased by the end of the year. At full buildout in 10 to 15 years, the complex is expected to swell to 60 million square feet of distribution, manufacturing, office, and retail space.

Up to two-thirds of that total could be distribution centers.

### **Up to date**

Meanwhile to the north, Kansas City is pushing ahead with plans to position itself as a distribution hub. The corridor between Houston and Kansas City is expected to see a population boom of nearly 40 percent in the coming years, which makes it a likely focus for companies seeking to establish DCs close to their customer base.

As with Dallas and Fort Worth, the booming U.S.-Asia trade is contributing to the area's growth. Kansas City officials estimate that more than \$9 billion in foreign imports clear U.S. Customs in specialreport Kansas City each year.

The drive to make Kansas City a distribution mecca is already under way. For example, the Allen Group, developer of the Dallas Logistics Hub, has announced plans to build a similar complex in Gardner, Kan., 25 miles southwest of Kansas City. The 1,000-acre logistics complex, to be known as Logistics Park- Kansas City, will be located adjacent to the BNSF intermodal facility.

And KC SmartPort, a six-year-old economic development agency, seems to have been working overtime to attract big box retailers and consumer goods makers to the area. The agency's recent wins include Pacific Sunwear, which is building a 400,000-square-foot facility in Olathe, Kan., and Musician's Friend, which has signed a 10-year lease for a 702,000- square-foot DC in Kansas City.

Kimberly Clark is also negotiating to lease a half-million- square-foot facility in the region.

In addition, at least one area developer is taking the "build it and they will come" route.

Kessinger/Hunter will build the region's first spec distribution facility, which will measure just under 600,000 square feet, in nearby Olathe.

### **Shortage on the shores**

For all the attention paid to the booming Asian trade, in the end, rising import volumes are only one factor in the growth of inland ports. A severe shortage of land near seaports is also contributing to the trend. In fact, none of the import warehouses being built today are closer than 150 miles to any seaport, according to Arnold Maltz of Arizona State University and Thomas Speh of Miami University in Ohio. Maltz and Speh are the authors of a new research report titled "Import-Driven Warehousing in North America: Challenges and Opportunities." They presented the results of their research at the Warehousing Education and Research Council's annual meeting in April.

Maltz and Speh interviewed managers of 19 warehouses located at 10 of the largest U.S. ports for their study. They found that the steady rise in import volumes has created a critical need for more warehouses at the nation's ports, but that harborside property is hard to come by.

"There's not a port [in the U.S.] with significant space on the waterfront for warehouse development," says Maltz.

Besides serving as storage centers, import warehouses play a vital role in transloading and in breaking down ocean-container loads for redistribution, usually by truck or rail. In some cases, port warehouses also provide value-added services, including repacking and labeling merchandise for final sale.

The researchers also reported that cargo handling efficiency varied dramatically from port to port. The process of offloading ocean cargo and transporting it to a warehouse involves multiple participants: steamship lines, stevedoring companies, freight forwarders, customs brokers, port authorities, terminal operators, longshoremen, drayage companies, warehouses, and rail and highway carriers. Import warehouses are highly dependent on the success of those relationships, all of which affect their ability to conduct business, the study noted. But communications often leave a lot to be desired. "Steamship lines often won't tell them what's coming into a warehouse until after it's off-loaded," says Maltz.

#### **Sorting things out**

Right now, the "inland ports" movement is still in the early stages. But if demand for their services starts to grow, importers are likely to begin calling

for some changes to current operating procedures. In particular, they might start demanding adjustments in the way in which ships are loaded overseas, says Sara Clark, who wrote a thesis paper on inland ports and is now multimodal transportation planning team leader at Kansas City-based TranSystems, a transportation consulting company.

Today, products are typically loaded onto ships as quickly as possible and in no particular order. But if companies want to offload containers at the port of entry directly onto trains bound for Kansas City or Dallas, that practice will no longer suffice. Instead, the goods will have to be pre-sorted by geographic destination far back in the manufacturing stream.

"I don't know of any ocean liners doing that [pre-sorting] right now, but I think there could be a trend toward that in the future," says Clark. She notes that promoting the practice will be more a question of weaning service providers from entrenched habits than of resources. Labor is both inexpensive and plentiful in foreign ports, and the space is available to expand forwarding operations if pre-sorting becomes commonplace. What's needed now, she says, is for major shippers to step up their demands that products be staged to move directly to their DCs.