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## **"Siding" Up to Intermodal**

**As intermodal traffic grows, more companies look to plant their DC site flags alongside rail facilities.**

By [Mark B. Solomon](#)

The legendary Illinois senator Everett McKinley Dirksen famously quipped that "a billion here, a billion there, pretty soon you're talking real money." The Home Depot Inc., which was poised to crack the \$80 billion annual sales mark in its 2013 fiscal year that ends in January, knows of what Dirksen spoke.

At the Atlanta-based home improvement retailer, the law of large numbers almost decrees that any operating efficiencies, no matter how trivial they seem on the surface, will yield big savings. So when the company in September relocated operations from two stocking distribution centers (SDCs) near Interstate 55 about 25 miles south of Chicago to a single 1.6 million-square-foot facility adjacent to Union Pacific Railroad Co.'s (UP) intermodal facility in Joliet, Ill., about 40 miles southwest of the city, it raised nary an eyebrow in the mainstream world. But for a huge intermodal user like Home Depot, the ability to avoid the cost of draying products between the highway locales and UP's lines was no small matter.

Home Depot would not disclose container volumes or specific cost savings. Michael Murphy, chief development officer for CenterPoint Properties, a Chicago-based industrial property developer active in the intermodal arena, estimates the typical dray move costs between \$125 and \$150. Multiply that by a hypothetical number of 100,000 twenty-foot-equivalent containers a year, and the annual dray savings alone hit \$12.5 million or higher. That figure doesn't include other synergies that come with a large user's being a three-iron golf shot or so away from the train and the boxes on or in it. Murphy said he had no concrete numbers on Home Depot's activity.

Home Depot's new SDC sits next to a 643,000 rapid deployment center (RDC), which opened in January 2012. The centers represent the company's largest U.S. supply chain operation, serving 345 stores in 13 states.

## **SPACE NEAR THEM THAR RAILS!**

Welcome to the next logistics land rush. As demand increases for intermodal transportation—total third-quarter 2013 traffic rose 4.7 percent from the 2012 period, according to the Intermodal Association of North America—businesses are taking a hard look at locating or relocating their DCs near intermodal yards. Of the 225 million square feet of DC space under development in the U.S., about one-third is at or close to an intermodal facility, according to John H. Boyd, head of The Boyd Co. Inc., a site selection firm in Princeton, N.J. Boyd said that is about twice the ratio of several years ago, though he didn't have hard numbers to support the estimate.

Boyd said among the factors driving property demand near intermodal yards are Canadian companies searching for bargains in U.S. real estate and e-commerce players like Amazon.com, which operates a DC in Tracy, Calif., close to a line served by the Burlington Northern Santa Fe Railway (BNSF). Another is the rail industry's success in promoting intermodal's environmental virtues, an approach that Boyd said has been successful with his firm's clients.

According to a soon-to-be-completed study by Chicago-based real estate services and logistics firm Jones Lang LaSalle, the six Class I railroads—BNSF, UP, CSX Corp., Norfolk Southern Corp., and the U.S. operations of Canadian National Inc. and Canadian Pacific Corp.—operate 164 intermodal facilities in the U.S. and 19 in Canada. The study, which will quantify the growth of distribution centers and other real estate attributable to intermodal facilities, is to be published in early 2014.

In eastern Pennsylvania's Lehigh Valley; the Kansas City suburb of Edgerton, Kan.; Joliet and Elwood, Ill.—the latter being home to a BNSF intermodal yard where Wal-Mart Stores Inc. has two DCs totaling 3.4 million square feet—the Dallas/Fort Worth Metroplex; Memphis, Tenn.; and the "Inland Empire" east of Los Angeles, land is being snapped up for intermodal development. In the Lehigh Valley, a straight rail shot to and from New Jersey's Port of Elizabeth and a gateway to the densely populated New York, New Jersey, and Philadelphia metro areas, there are 45 million square feet of industrial property within 15 miles of an Norfolk Southern intermodal yard, according to Jake Terkanian, Wayne, Pa.-based vice president of development giant CBRE's Global Industrial Services Group. Of that acreage, only 5 percent sits vacant, Terkanian said.

In Bethlehem, Pa., on the Lehigh Valley's eastern side, Wal-Mart has two buildings, totaling 2.4 million square feet, that are so close to the tracks that trucks can shuttle boxes on a private road without ever treading on public infrastructure, Terkanian said.

In Edgerton, about 25 miles southwest of Kansas City, where BNSF opened an intermodal facility on Oct. 17, there are 20 million square feet of land either developed and occupied, in the process of development, or available for occupancy, according to Chris J.F. Gutierrez, president of KC SmartPort, a nonprofit economic and logistics development organization. Today, Demdaco, a maker of gift and home décor products, occupies a 326,000-square-foot DC next to the yard. A 500,000-square-foot facility will be ready for occupancy in February, and

dirt has been turned on two more parcels of 600,000 and 400,000 square feet, respectively, according to Gutierrez.

In Fairburn, Ga., 25 miles south of Atlanta, 5 million square feet of DC space has, over the past 14 years, been erected near a CSX intermodal terminal. That is a far cry from the 1990s when the DC operation consisted of two or three buildings clustered around an interchange off Interstate 85, according to Carl Warren, director, integration project planning for CSX Intermodal terminals, a unit of Jacksonville, Fla.-based CSX.

### **TRADE-OFFS WORTH THE RISK**

For intermodal users, there's a trade-off in making a DC investment at or near a yard. Because of the increased demand for space, the cost of land near an intermodal facility can be anywhere from 10 to 20 percent higher than a comparable facility elsewhere. On paper, however, the numbers seem to support the sacrifice. Transportation accounts for 40 to 50 percent of a company's supply chain costs. By contrast, real estate clocks in at between 4 and 5 percent. The cost of a dray can run as high as \$1.75 a mile. A user who negotiated a good deal on the land will find those savings eaten up quickly with each mile they are away from the yard.

The tipping point comes in the volume projections. Cozying up to an intermodal yard makes sense if a DC is handling at least 1,000 40-foot-equivalent-unit containers a year, said Murphy of CenterPoint. Anything above that volume threshold becomes gravy; anything below that may not work, Murphy said. The strategy is "not a value proposition for everyone," he said.

Experts caution that factors such as a trained and motivated labor force, a tolerable taxing climate, and economic incentives need to align with the transportation benefits when selecting a site. "Sometimes we have to hold back our clients from making a decision" to locate a DC near an intermodal yard based solely on transport considerations, said Tim Feemster, a long-time real estate and logistics executive and now head of a Dallas-based company bearing his name.

Terkanian of CBRE said proximity to an intermodal facility is not the engine of a typical customer's site selection strategy. "We don't have clients telling us they have to be near an intermodal yard," he said.

One unsurprising roadblock to locating at an intermodal yard lies in the long-standing organizational divide between a company's real estate and supply chain operations. Supply chain folks say the real estate side is more interested in closing a land deal at the best possible price than in taking the operation's holistic costs into account. The chasm is widened by the growth of intermodal itself, which is a recent phenomenon and whose implications might not yet be understood by real estate professionals accustomed to working with on-highway facilities.

Logistics experts are split on this issue. Feemster said that "intermodal is a concept [real estate brokers] don't understand and [that] hasn't been on their radar screens." Warren of CSX Intermodal Terminals said the interaction between the real estate and supply chain groups is

"closer to being suboptimized as opposed to being harmonious." However, Murphy of CenterPoint believes real estate brokers are far more sophisticated about supply chain issues—including intermodal—than they were five years ago. Moreover, he sees deeper and more effective interaction between an organization's real estate, supply chain, and finance groups than in the past.

According to Boyd, industrial real estate powerhouses are catching on to the value of intermodal, and, perhaps more importantly, its staying power. "The national firms are going to develop dedicated intermodal units," he said. "They are playing catch-up, but they will catch up."

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