The Salt Lake Tribune

Under one (big) roof, Utah offers low-cost way to do business

Distribution • Salt Lake Valley's economical warehouse operations give state edge over rivals.

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THE SALT LAKE TRIBUNE

PUBLISHED: APRIL 7, 2013 12:37AM
UPDATED: APRIL 7, 2013 12:36AM

Al Hartmann | The Salt Lake Tribune Huge moving crane off-loads semi truck trailors with goods from rail cars at Union Pacific's intermodal shipping container hub at 5600 West and 10th South on July 12 2012. The huge hub offloads containers from trains and trucks pickup the loads for delivery troughout the intermountain west.

Informally known as the "Crossroads of the West," Utah long has been viewed as a place ideally suited as a staging ground for the movement of manufactured goods between the East and West coasts, Canada and Mexico.

And now, one of the nation's leading corporate site-selection companies has released a survey showing that state, and the Salt Lake City area in particular, have a lot more going for them than just their central location and easy access to the interstate highway system and major railroad lines.

The study by The Boyd Co. of Princeton, N.J., found that the cost of operating a 500,000-square-foot distribution warehouse locally that employed 175 workers at annual salary of $31,500 was $15.1 million a year, the second lowest among 30 cities it studied.

"Companies always are looking for ways to improve their bottom lines, and when you have an underlying cost structure (for an industry) that is so competitive, it is going to pay dividends in terms of economic development and job creation," said Natalie Gochnour, chief economist for the Salt Lake Chamber.

John Boyd Jr., a principal in The Boyd Co., said when it comes to warehouse operations, the Beehive State is one of the places to be. "Land, labor and utility costs are low. And just as important, Utah is a place that has always made it known that it welcomes warehousing and distribution businesses."

That hasn't been the case elsewhere in the country, until just recently, he said.

It used to be that many communities were resistant to new warehousing projects and viewed them with skepticism. "There was this 'Not in my backyard' mentality. Warehouses were viewed as being a source of traffic congestion because of all of the big trucks moving freight in and out. And the jobs they produced were viewed as low-skill, low-paid positions."

That's changing.

Many cash-strapped communities are actively courting logistics industries because the economic benefits are clear, he said. Large warehouses that sit on huge parcels of property can translate into a significant source of property tax revenue. And many of the jobs no longer entail just stacking cardboard boxes or driving a forklift to move and load pallets of merchandise onto a waiting truck.

"What you have are well-compensated employees who manage sophisticated technologies such as radio-frequency identification technology, automated storage and retrieval systems, mobile robotics, inventory tracking and software-driven pick-and-pack systems," Boyd said.

For Utah, that means the competition for new warehousing projects will be getting a lot tougher, Boyd said. Still, he anticipates that new warehouse and distribution facilities will be a major source of new investment and jobs for the state in the years ahead. "You'll remain a major player."

The state's willing embrace already has paid off.

Over the past five years — a period that encompassed the Great Recession — the number of people directly working in warehousing and storage operations increased nearly 15 percent, to more than 8,100 Utahns, according to Carrie Mayne, chief economist for the Utah Department of Workforce Services. "It was some pretty healthy growth," she said.

And that number doesn't include the tens of thousands of additional support personnel, such as truck drivers, railroad workers and outside contractors needed to keep those facilities operating smoothly.

During that same period, the state's construction industry lost 32 percent of its employees while the number of jobs in the retail sector fell by 3 percent, according to data supplied by Mayne.

Jeff Edwards, president of the Economic Development Corp. of Utah, said out of 125 different development projects the state is working on, more than a dozen are with companies seeking sites for big warehousing operations. "That is one of the highest percentages of warehousing projects that we've ever seen," he said.

If there was one project that set off Salt Lake's decadeslong effort to position itself as one of the nation's key distribution centers, it would be RC Willey's 850,000-square-foot warehouse, which was constructed in 1996 on the far west side of the valley amid vast stretches of flat land.

"When we built that facility there was nothing around it," said Marv Jensen, facilities manager for RC Willey. "We needed something close to the freeway and that spot seemed ideal. Looking back I think we probably were the seed project that got people to realize that area was ideal for warehousing operations."

Today the warehouse, which is 18 acres or about 16 football fields under one roof, is no longer the only one in the area. Nearby are major distribution facilities for companies such as Sephora cosmetics, mountain bike maker Specialized Bikes and a newly built LDS Bishop's storehouse.

Boyd said one of the big draws that will entice companies to place additional warehousing facilities in that area of the Salt Lake Valley is the nearness of the Union Pacific intermodal hub.

Completed in 2006, the $83 million, 260-acre project replaced a much smaller, obsolete terminal that sat on 30 acres closer to downtown. The new facility increased Union Pacific's capacity to handle shipping containers by 300 percent and offered a way for companies to better control their shipping costs by taking advantage of lower-cost rail transportation.

“Siting distribution center facilities close to rail hubs is a good hedge against rising fuel prices,” Boyd said, noting that it is much cheaper to move large quantities of products over long distances using rail service — and then put the cargo onto trucks for delivery to the final destination — than relying entirely on over-the-road shipping.

And, there also is an environmental factor to be considered, Boyd said.

“Compared to over-the-road shipping, rail moves one ton of freight on average 405 miles on a single gallon of gasoline,” he said, adding being near a rail hub can reduce a shipper's carbon footprint.

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Warehouse operating costs

Least-expensive cities

1) Quincy, Wash. — $14,057,361

2) Salt Lake City — $15,101,567

3) Billings, Mont. — $15,233,698

4) Portland, Ore. — $15,604,778

5) Spokane, Wash. — $15,975,829

Most expensive cities

1) Vancouver, B.C. — $23,600,989

2) Prince Rupert, B.C. — $22,760,723

3) North Bay, Calif. — $21,559,401

4) Los Angeles, Calif — $20,737,988

5) Long Beach, Calif — $20,676,012

Source: The Boyd Co.

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Operating cost comparison

Salt Lake City:

Annual labor costs — $5.5 million

Electric power costs — $1.2 million

Property and sales taxes — $1.6 million

Shipping costs — $2.3 million

Los Angeles:

Annual labor costs — $6.3 million

Electric power costs — $2.3 million

Property and sales taxes — $2.3 million

Shipping costs — $3.1 million

Source: The Boyd Co.
