

Distribution sector faces opportunities, challenges

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While Fresno County is well-placed for a distribution hub, a number of factors stand in the way of the sector growing.

Though lacking in industrial space, Fresno County is not short on benefits to developers and corporations prowling the state for a new delivery hub.

According to a recently released report by corporate locations consultant The Boyd Company of Princeton, N.J., the area is big on what large companies look for the most when siting a distribution center — cost savings.

The study compares 29 cities across the U.S. in terms of how much it would cost a corporation to operate a 500,000 square-foot distribution warehouse employing 175 workers.

Ranging from \$23.6 million per year in Vancouver, Canada to \$14 million in Quincy, Wash., the Fresno metro was the lowest among California cities on the list at \$18.2 million.

Keeping down costs were low annual property and sales taxes totaling \$1.7 million and amortization costs at \$5.3 million, although electric power costs were somewhat higher than most at \$2.28 million.

Distribution picking up

Low cost is a big reason why the distribution industry is up 20 percent from what it was five years ago in the Central Valley, said John Boyd Jr., principal with The Boyd Co.

“Labor costs here are very attractive. Real estate costs here, especially on the industrial line, are very attractive. There are great bargains today in the industrial market throughout the Central Valley, especially in Fresno,” Boyd said. “And the savings are amortized over 25 years similar to a mortgage, so \$5 or \$6 million is actually \$100 million.”

Another thing attracting distributors to Fresno, Boyd said, is convenient access to intermodal rail to transport goods.

Fresno serves as a hub for the Burlington Northern Santa Fe and Union Pacific class 1 rail lines running up and down the state, with several class 2 short haul lines operated by Genesee & Wyoming shooting off to rural communities in the Valley including Firebaugh, Reedley and Strathmore.

Boyd said distribution clients have been looking at rail service more closely than ever. The company is predicting over-the-road trucking costs to increase by 5.6 percent in 2013 over the year before and diesel fuel to rise to \$6.69 per gallon by 2020.

“There’s also the value of branding yourself as being green friendly,” he said. “One gallon of gas translates to 405 miles of intermodal transportation.

“AB 32 (California’s greenhouse gas reduction law) is something business leaders run around saying how bad it is, but the reality is goods need to get to consumers in California. Fresno is a low cost place to do it.”

Boyd, who represents clients including Dell, PepsiCo and JP Morgan Chase, said distribution is really the firm’s focus right now, with the rise of e-commerce compelling companies to be closer to their consumers.

He mentioned new warehouses by Amazon in Tracy and Patterson and several major distribution centers in Kern County’s Tejon Ranch by IKEA, Walmart, Caterpillar, Target and others.

A tough sell

But despite its relatively low cost and proximity to dense consumer populations, the Fresno area is without the sprawling spans of developed industrial land like communities farther to the north and south.

“If you look at the industrial property, shovel-ready-to-go, we don’t have thousands of acres of industrial property ready. We’re limited on inventory,” said Esther Cuevas, director of corporate locations with the Economic Development Corporation serving Fresno County. “There’s definitely opportunity for growth.”

With just 48 million square feet of industrial space in Fresno County, the region’s 10 percent industrial vacancy places just a little higher than the national rate of 9 percent, according to the EDC’s 2013 Real Estate Forecast.

However, the EDC's most recent Fresno County Overview guide showed the county's annual lease rate for warehouse and distribution space averaging \$3.72 per square foot compared to \$5.64 in Los Angeles.

Cost is something Cuevas leads on when wooing companies to Fresno County.

She mentioned Fresno's lower land values, giving the region an edge over southern and northern California, as well as lower wages inherent in being an ag-based community.

Cuevas also promoted Fresno's mid-state location as being ideal from a logistics standpoint, with only 129 miles to the Port of Stockton, 244 miles to Long Beach and 177 miles to Oakland.

"Logically, if a business needs to get their product out within one day, they can reach that, as well as Reno and Salt Lake City," said Cuevas, echoing Boyd's focus on rail access.

Rail opportunities

Roger Van Groningen is taking the region's rail connectivity for all its worth. For the last two years, the president of the Fowler-based logistics company Van G Logistics has been developing 154 acres northwest of Conejo and Peach avenues in Selma into a rail-oriented industrial park served by the BNSF rail line.

With some 120,000 square feet of both dry and cold storage so far, Groningen is currently improving the site with 3 ½ miles of track and a loading area that can fill 17 rail cars at one time.

When done, around 50,000 feet of track will branch off of the rail line to park rail cars going up and down the state and even farther to the Midwest and East Coast while saving growers and shippers up to \$50 million a year in transportation costs.

"Our biggest expansion is going with the rail for two reasons. One is environmentally, both with air quality with trucks coming off the road, and also structurally with trucks physically on the road that are deteriorating the highways," Groningen said.

Competition with ports

Not everyone is as optimistic about distribution settling in the area. According to developer Roger Anthony of Roger Anthony Real Estate, more is flowing out of the Valley as an agriculture-oriented region than coming through. Large corporate warehouses, he said, are therefore more suited farther north and south near bustling ports to receive product.

"You're not distributing from Fresno to Los Angeles or to San Francisco. No one's going to package it here," said Anthony, who has developed some 250 acres of industrial property serving ag along Highway 99 near Fowler and Selma over the last 12 years. "We get everything in on ships. Why would they take it from Oakland to Fresno to take it Oakland?"

Fresno County is also served well by large industrial parks like North Pointe Business Park along North and East avenues in south Fresno.

The site offers 230 acres of real estate for warehouses and manufacturing, housing facilities for companies like Corporate Express and LKQ Corporation, all a few blocks away from the BNSF Domestic Intermodal Facility.

Others include the 180-acre Clovis Research and Technology Park, the 29-acre Selma Industrial Park and the 78-acre Kings River Technology Park. Several large industrial sites and warehouses buildings are also offered by Fresno-based Diversified Development Group, including its North Avenue industrial complex totaling several hundred thousand square feet along Willow and North avenues.

“We maintain, even during the downturn, about 95 percent (occupancy),” said John Brelsford, president of Diversified Development Group.

Over the years, many companies have chosen Fresno County for its base of distribution in California. The region is home to large warehouses moving products from companies like The Gap, Pepsi Cola Bottling Co., Inland Star, Kraft Foods, U.S. Cold Storage, UPS and FedEx.