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U.S. Warehouse Study Finds Wide Range of Operating Costs

By Rip Watson, Senior Reporter

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U.S. warehouse operating costs last year varied widely, ranging from the most expensive in the San Jose, Calif., area to the lowest price in Sioux Falls, S.D., a new study found.

A Jan. 5 report by Boyd Consultants, Princeton, N.J., said that a 175,000-square-foot warehouse in the San Jose area cost \$12.6 million a year to operate, 70% more than the \$7.4 million at the same-sized facility in Sioux Falls. In Canada, the range was \$12.1 million in Toronto to \$9.7 million in Calgary, Alberta.

The disparity in operating costs, along with other factors, are driving more warehousing locations to the region where costs are lowest, a company official told Transport Topics.

“There is an overall trend toward locating in the Midwest, and this is going to accelerate in the next five years,” said John Boyd Jr., a principal at Boyd Consultants.

“It’s being driven by more investment and trade on the I-35 corridor between Mexico and Canada. It’s being driven by more rail shipments.”

The expansion of the Panama Canal also will affect warehousing, with more location expected in areas in the East and Midwest, he added.

Air freight growth also has been a positive force in the center of the country Boyd said, with hubs operated by UPS Inc. in Louisville, Ky., and FedEx Corp. in Memphis. St. Louis also has been a growth area for that business, he said.

Boyd said that labor costs dominate the total cost of warehouse operations, accounting for about 50% of the overall expenses, with lower costs in states such as South Dakota that have so-called right-to-work laws. Those laws restrict the power of organized labor by barring practices such as requiring union membership to work at a factory.

Although labor costs are a key expense, they rose just 1.8% on average nationally last year from 2009, in part because of persistent high unemployment, Boyd told TT.

The other categories measured in the survey are power utilities, land, construction, tax and shipping costs.

Diesel fuel costs also are pushing up total costs by increasing truck shipping expense, John Boyd noted.

Facility power and utility costs rose between 5% and 10% last year as warehouses added more sophisticated functions such as light assembly that require more technology and machinery, the survey said.

Land costs to locate warehouses also are dropping in Florida, Nevada and Arizona because real estate values have plummeted there.

Boyd also highlighted changes in the way warehouses are being viewed by communities as the number of manufacturing and production jobs drop in the United States.

“The modern warehouse is very lucrative for a cash-strapped municipality; it can bring in enormous tax revenue,” he said. “These are very attractive projects.”

Initially attracting lower-paid workers, communities where warehouses are located tend to add higher-skilled workers along with other operations such as customer-service departments, Boyd said.

Communities also are dropping the “not in my backyard” opposition to new warehouses as the economic incentives become clear, Boyd said.