Distribution Inc.

DCs aren't just for California's major port areas any more as retailers look inland

BY BILL MONGELLUZZO

Retailers with distribution needs that encompass the vast California market have traditionally had to choose whether to locate their import facilities near the Los Angeles-Long Beach port complex to serve Southern California or closer to Oakland to serve the San Francisco Bay Area. Industrial real estate developers in California's Central Valley are pitching their region as a single location to serve the entire state.

Large retailers such as IKEA, Target Stores, Sears, Wal-Mart and now Oneida have located distribution centers in a 125-mile stretch of the Central Valley from just below Bakersfield to Fresno. These large importers are leveraging their location to reduce their total supply-chain costs including the cost of land, labor and transportation.

"Now the other retailers see them as leaders in using their supply chain as an economic advantage," said Barry Hibbard, vice president of commercial and industrial real estate at Tejon Ranch Co.

When imported containers are destined only for Southern California, the logical location in which to build a distribution facility is a region 50 miles east of Los Angeles known as the Inland Empire. That region in San Bernardino and Riverside counties is the largest distribution hub in the nation and is home to dozens of domestic warehouses as well as import distribution facilities.

Given the added distance from the ports compared to the Inland Empire, the lower Central Valley is a more difficult haul for independent truck drivers, said Thomas Wyville, director of marketing at FMI International, which operates distribution facilities in Southern California. An owner-operator, who is usually paid by the haul, can get only one round trip per day to the region compared with two to the Inland Empire, Wyville said.

However, the Inland Empire's popularity has caused land and labor costs to soar and has generated resistance among local residents to the spread of industrial real estate sites, Hibbard said.

The lower Central Valley is becoming an alternative to the Inland Empire. The region is about a two-hour truck ride from the ports and has thousands of acres of undeveloped land. Logistically, the region makes sense when the total transportation move from the ports to the import distribution center and the domestic haul from the warehouse to locations in Northern California and other western states are considered, Hibbard said.

For example, a driver leaving the IKEA distribution center in the early morning can deliver a load to Oakland and return the same day, keeping within the federal hours-of-service limitations and having the added benefit of being home in time to have dinner with the family, Hibbard said.

As the Inland Empire is built out, land and labor costs continue to increase. Land costs in the southern Central Valley region are less than half of those in the Inland Empire, and labor costs are 20 to 25 percent cheaper, he said.

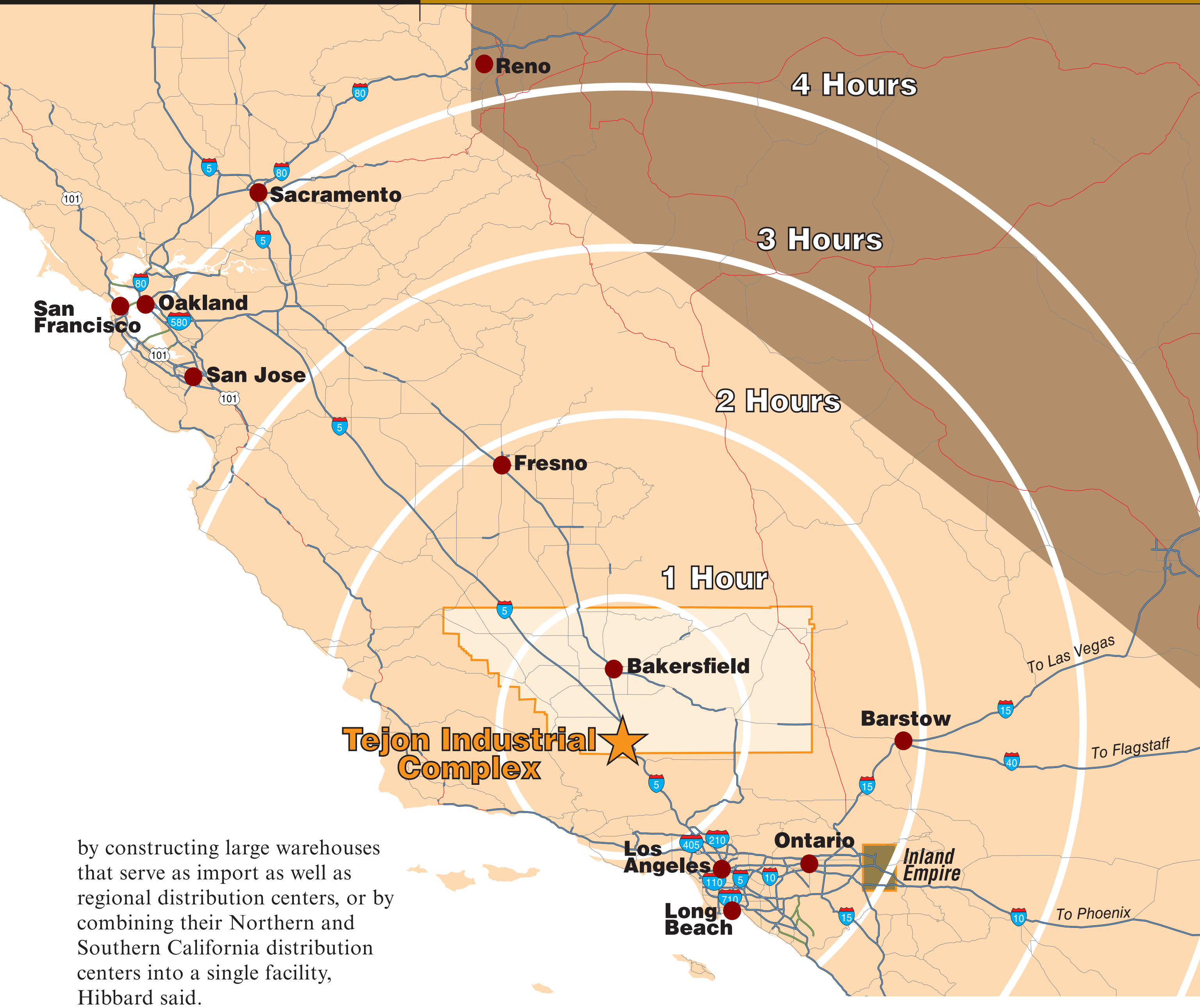
Labor availability is still better than in the Inland Empire, although labor is not as plentiful as it was when the large retailers set up operations in the region. At its recent job fair, Oneida had 10 applicants for every position, compared with 13 at IKEA several years ago and 16 at the Target distribution center.

The quality of labor also is considered attractive because there is less employee turnover than in facilities closer to Los Angeles, Hibbard said. There are cases where three generations of the same family are working side by side at a warehouse, with the elders setting an example for the grandchildren. "If the 22-year-old does something the grandfather doesn't approve of, he tells him, 'That's not the way it's done in our family,' " Hibbard said.

There is also a large pool of skilled workers to choose from. Workers who operate forklifts in food-processing warehouses in the region can drive the same equipment at an import distribution center and earn $2 an hour more, he said.

Attracting managers to the region is not difficult. A homeowner in the Los Angeles area can likely take the equity for his home and purchase two properties in the Bakersfield area, Hibbard said.

Retailers can cut down on redundant facilities in California



by constructing large warehouses that serve as import as well as regional distribution centers, or by combining their Northern and Southern California distribution centers into a single facility, Hibbard said.

One of the biggest factors limiting growth in the Inland Empire is the friction between residential and industrial real estate development. Some communities have passed ordinances restricting industrial developments that generate a high volume of truck traffic.

Distribution centers in the lower Central Valley are located, by design, away from residential areas. “That’s what the distribution centers are asking for,” Hibbard said.

Distribution centers in the lower Central Valley import most of their merchandise through the ports of Los Angeles and Long Beach. IKEA, for example, imports only about 15 percent of its volume through Oakland, which is a four-and-a-half-hour drive away, Hibbard said.

However, Oakland gives distribution centers a backup port if Los Angeles and Long Beach experience severe congestion such as the ports did in 2004. With an established service from Oakland, a distribution center can more easily divert more of its freight through the Northern California port if need be.

Investors are considering a rail shuttle project from Oakland to the lower valley. If the project is developed, it could double the cargo volume routed through Oakland to distribution facilities in the region, Hibbard said. ◆