

Tejon Industrial Complex: A Strategic Link in the Global Supply Chain

[By Barry Hibbard]

A Global Economy Emerges

The advent of the global economy and the dramatic increase of imports to the United States have forever changed the site selection process of the modern industrial space user. Today, most products sold and consumed in our country no longer begin their life cycle within our borders. They are manufactured in a foreign nation, imported stateside, staged at a warehouse, customized or assembled there for consumer delivery, and then distributed into the marketplace through a vast and complex supply chain made up of regionalized warehouses and retail locations throughout the United States. Effectively, logistics related operations have all but replaced traditional manufacturing concerns across the country.



Existing warehouse space at TIC before occupied.

As Tejon Ranch Company and its industrial brokerage partners at Colliers International have discovered during the development and marketing of the Tejon Industrial Complex, companies today are using their site selection process as a tool to maximize their supply chain efficiencies and to create a competitive advantage. Companies don't view real estate as a raw commodity. The development of master planned industrial parks effectively serving the growing operations of this import-driven warehouse sector is no longer relative to the simplicity of the time-tested axiom of "Location, Location, Location." The new axiom is more accurately "Logistics, Labor, Location."

This means that today's large-tenant industrial developments not only have to offer the most modern facilities built to specialized user demands, but they must also be planned in strategic locations that offer a deep local labor base, are effectively connected to a major port or intermodal transportation infrastructure and efficiently serve the broadest consumer markets from one location. The ability to utilize the already existing infrastructure and access to a stable, well-trained employee base have a far bigger re-occurring impact on the bottom line of these cost-sensitive companies than the fixed cost of developing a modern warehouse facility, no matter how large and advanced the building and its systems might be.

Tejon Industrial Complex: Logistics, Labor and Location Defined

Tejon Ranch Company is a publicly traded, diversified real estate development and agribusiness company. Founded in 1843, and encompassing more than 270,000 acres, Tejon Ranch is the largest and oldest working ranch in California as well as the largest private landholding in the state. It is located along Interstate 5, approximately 30 miles south of Bakersfield and 60 miles north of Los Angeles.



TIC is a master planned, 1,450-acre industrial development designed with the essentials of logistics, labor and location in mind. Onsite amenities include restaurants, a hotel and gas/diesel fuel for trucks and travelers.

The Tejon Industrial Complex (TIC) is a master planned, 1,450-acre industrial development designed with the essentials of logistics, labor and location in mind. From its centralized location in California's San Joaquin Valley, it offers access to the state's major ports in Los Angeles/Long Beach and Oakland, providing delivery diversification options for inbound goods from overseas. Just as importantly, its location provides efficient outbound goods movement via three major freeway arterials (I-5, Hwy 99 and Hwy 58 to I-40 and I-15) that reach most of California's major markets. In addition, parts of Nevada and Arizona are within a one-day truck-turn, and all of the 11 western states are within 24 hours of the complex. TIC was also planned with no adjacent

residential development, allowing for round-the-clock distribution operations, a key benefit for off-peak goods movement from ports and to urban distribution locations. Kern County has a deep regional labor pool, often resulting in an applicant to position ratio of 10:1 for warehouse operators, and a high quality of life at a significant cost savings compared to most of California's urban centers, providing the foundation for a stable workforce. Finally, the location is entitled for the development of approximately 20 million square feet of modern warehouse and industrial buildings. So how does a project like TIC and its Central California location fit into this new global economic paradigm?

The Big Picture: Why the Central California Staging Ground Makes Sense

California has absorbed many changes during our nation's economic shift to an import driven business model. Not only is it our country's most populous state with some of the top consumer markets for these imported goods, it is a gateway for the nation to the emerging Asian and Pacific Rim trading partners fueling this new economic model. Moving more than \$260 billion a year in trade and more than 40 percent of the nation's containerized cargo, the ports of Los Angeles and Long Beach are the two largest container seaports in the United States. If taken together, the adjacent ports would be the fifth-largest container port in the world. The Port of Oakland is the fourth busiest container seaport in the United States, and also plays an important role in keeping California at the forefront of the world's global supply chain.

By 2020, it is predicted that trade with Asia will more than double its current levels, and that imports to the U.S. will more than triple. In that year, the two ports in Los Angeles expect to process approximately 36 million 20-foot equivalent units (TEUs) of containerized cargo, and Oakland will hit 4.2 million TEUs. Both port authorities overseeing these Pacific Coast ports indicate they will be ready for the future growth in trade, but the real challenges lie in what to do with this cargo once it reaches land. This problem is most acute in Los Angeles, obviously by import volume, the nation's most strategic trade connection to the Asian markets.

At the same time this exponential growth in port-related commerce is occurring, land available for new, large-scale industrial development in the established Southern California markets closest to the ports is a scarce commodity. This trend is due to the growing demand for space near the ports from importers and from the encroachment of residential development in these same commercial corridors. Recent infrastructure improvements like the Alameda Corridor and its port-connected rail transport option are hoping to facilitate the increase of pass-through cargo to the Eastern U.S. markets. However, the greater challenge will be establishing regional facilities capable of effectively serving the Western markets from outside the congested urban centers. Rail, unfortunately, is not an effective local distribution channel. As companies now begin to look for the next logical expansion location for their port connected operations, an area on the stretch of Interstate 5 between Bakersfield and the Los Angeles County border is emerging as a solution.



Warehouse space at TIC features an ESFR-plus sprinkler system and clear heights between 50 and 70 feet.

Located in the southern part of the San Joaquin Valley in Central California, Kern County is one of the fastest growing metropolitan areas in the western United States. The county has also proven to be a golden opportunity for distribution centers and manufacturers because of the area's strategic, centralized location. Kern County offers efficient connections to both of the states major ports, affordable land, available labor and quality of life, making it a strategic destination for today's progressive companies.

The Master Plan: Meeting Land Development Needs at TIC

Located just north of Los Angeles and capitalizing on all the benefits of southern Kern County, the Tejon Industrial Complex is specifically designed to be California's next strategic link helping companies maximize their supply chain efficiencies. The project is part of Tejon Ranch Co.'s limited

real estate development of its more than 270,000 acres of land holdings. From its inception, the project was conceived to position California as the continued leader in global trade by providing a strategic site selection opportunity for warehouse and import driven operators.

This large-scale, master planned project creates the opportunity to develop a wide variety of industrial buildings, with the flexibility to expand. The sheer amount of shovel-ready dirt is a distinct benefit of a project like TIC. Nowhere in the established Southern California industrial corridors (South Bay, Mid Cities, San Gabriel, Inland Empire West) is the same amount of entitled raw land available for immediate big box warehouse developments. Currently, TIC is home to more than 2.5 million square feet of advanced distribution space, which includes the regional distribution operations of globally recognized logistics leaders like IKEA and Oneida Ltd. In total, TIC has the capacity for more than 20 million square feet of future warehouse and industrial space development.

Prepared lots at TIC are capable of supporting new industrial buildings ranging in size from 10,000 square feet to two million square feet and beyond. The value of a modern, Class A facility that is customized to an individual user and its needs can have an exponential benefit to supply chain efficiency. Some of the key features that industrial space users are looking for today include: additional container storage areas; large truck courts of 185 feet, allowing for efficient circulation around the building; a double-loaded building; sufficient clear heights; a secure environment; ESFR fire suppression systems; and access to existing infrastructure.



TIC is home to more than 2.5 million square feet of advanced distribution space with the capacity for more than 20 million square feet of future warehouse and industrial space development. Prepared lots at TIC range in size from 10,000 square feet to two million square feet and beyond.

In an effort to further meet the needs of the growing number of import-driven warehouse concerns considering a location at TIC, Tejon Ranch Company has joined with strategic partners to assist in the long-term development of the property. Colliers International is the worldwide marketing representative of the property. The Rockefeller Group, one of the world's leading experts in the development of port-related real estate, has established the permitting protocols and planning structure, in a joint venture with Tejon Ranch, to create up to 500 acres of Foreign Trade Zone designated facilities. ProLogis has an option for 84 acres which it is considering developing in 2007, providing its worldwide corporate customer base with a strategic Central California operational site selection.

The Future Is Now: Lessons from the New Age of Global Logistics Understand the needs and priorities of your end user, and you will build successful real estate developments that meet and exceed your customer's operating requirements. TIC is focused on understanding one imperative: warehouses are no longer simply a place to store goods; they are the critical link to an efficient inbound and outbound goods movement solution that can create the competitive advantage that C-level executives are looking for.

Emerging Trends in the Goods Movement System

- Shipping companies will continue to use smaller ports, other than Long Beach/Los Angeles and New York/New Jersey in order to minimize the risk of having goods stuck in congestion;
- There is an increase in the amount of short sea shipping (SSS) and the use of inland waterways to help move goods and clear coastal space; and
- The goods movement infrastructure is adopting automation and technology

in order to enhance logistical capabilities and improve business processes.

Goods Movement Statistics

- 80 percent of foreign freight arrives by ship to the U.S. west coast;
- 60 percent is transferred by rail or truck to the U.S. eastern region;
- Container traffic has more than tripled in the last 20 years and is projected to double again in the next 10 years; and
- Over the next 15 years, the top 10 U.S. ports will experience a growth of 33 percent (nine percent/yr) in millions of TEU's.

By Barry Hibbard, vice president, Tejon Ranch Company