

Super-Regional Facility Targets Emerging Markets

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As companies in the global marketplace continue to raise the standard for having the right product in the right place at the right time, they increasingly are basing decisions regarding their warehouse networks on how their choices help them to reach this goal and gain a sustainable competitive advantage. But unlike six to ten years ago when companies based their real estate decisions primarily on location, companies today are also considering logistics, labor, and lifestyle.



A number of retailers and wholesalers are consolidating multiple small warehouses into three or four super-regional facilities in optimal locations to create a network to serve the entire continent. Outside Los Angeles at Tejon Industrial Complex, IKEA and Daisytek, among others, have moved to facilities averaging more than 1 million square feet.

Recently, businesses throughout the nation learned just how important the southern California ports are to the national economy. During the 11-day closure last fall of the Los Angeles and Long Beach ports, businesses lost an estimated \$22 billion, with a ripple effect felt from California to New York and every state in between. According to a recent study by the Los Angeles Economic Development Corporation, "L.A.'s local ports and trade corridors deliver more than \$196 billion annually, or \$537 million per day, of products and commodities in every part of the country." The report listed the ten states that receive the greatest benefit from southern California ports and the annual financial impact: California, \$93 billion; New York, \$16 billion; Illinois, \$12 billion; Texas, \$11.8 billion; New Jersey, \$10 billion; Tennessee, \$4.7 billion; Michigan, \$3.6 billion; Georgia, \$3.5 billion; Arizona, \$3.3 billion; and Missouri, \$3.1 billion. "All indicators point to continued growth in imports at ports of Long Beach and Los Angeles," notes Jon DeCesare, principal of West Coast Logistics Consulting based in Long Beach, California.

To create a speedy and cost-effective way to move goods from the ports of Los Angeles and Long Beach throughout California and North America via ground and rail

transportation, a new trend has emerged that is affecting real estate decisions. According to the Warehousing Education and Research Council's 2001 survey, leading retailers and wholesalers are consolidating multiple small warehouses into three or four super-regional facilities in optimal locations to create a network to serve the entire continent.

In recent years, Kern County, located just north of Los Angeles, has seen the impact of this trend, with major players consolidating operations into larger, state-of-the-art facilities serving western North America. IKEA, Wal-Mart, Target, Sears, Daisytek, Nestlé, and CarQuest have located distribution centers in Kern County, with the average facility containing more than 1 million square feet.

Traditionally, such retailers, distributors, and manufacturers look to locate in a market like Los Angeles that is close to a seaport. But with land becoming increasingly scarce and population growth continuing, industrial space within Los Angeles County comes at a premium. High overhead costs and the lack of industrial space have led many companies seeking to expand warehouse and distribution operations to start targeting emerging markets outside of the L.A. Basin. Among the locations they are considering is Kern County, where land costs can range from 30 to 50 percent lower than those in Los Angeles County. Kern County also has large parcels available to accommodate the 1 million-square-foot-plus super-regional hub facilities. While transportation rates from the ports increase for a firm that moves outside traditional markets, the reduced land, labor, plus the efficiencies of outbound transportation movements, more than make up for it.

"In the past five years, Kern County has taken major steps to diversify its economy with more manufacturing and distribution companies. This transition is similar to what occurred in the Inland Empire [San Bernardino and Riverside counties] 20 years ago," says Patrick Collins, executive director of the Kern Economic Development Corporation.

Adding to the changing dynamics of logistics and commerce, the population of southern California is expected to grow by 7 million people over the next 20 years, adding 2.8 million new jobs to the employment base. "Population and job growth bring with

them a tremendous demand for new real estate," points out John DeGrinis, senior vice president of Colliers Seeley, based in Encino, California. "We're forecasting that an additional 300 million square feet of industrial space will be needed to accommodate this growth."

While the move north is primarily due to lack of expansion opportunities in Los Angeles, companies choose Kern County over other California alternatives for its affordable and available labor force, favorable housing costs, and transportation network. Among the supply-chain solutions drawing the attention of companies is the Tejon Industrial Complex, located 70 minutes north of downtown Los Angeles. The 350-acre complex is expected create 2,000 new jobs and contribute nearly \$850 million to the local economy over the next ten years. Tejon Industrial Complex East, which was entitled for 1,100 acres in January, is expected to be Kern County's flagship economic engine, creating as many as 6,200 new jobs in the next 20 years. Interstate 5, on which more than 60,000 vehicles travel through Tejon Ranch daily, provides distribution centers at the complex with access to 11 western states within 36 hours, as well as to 96 percent of California's 32 million consumers within a one-day truck-turn.

One of the retailers to migrate to Kern County most recently is Sweden-based retailer IKEA, the world's largest home furnishings company, which opened the first phase of its 1.7 million-square-foot distribution facility at the Tejon Industrial Complex in January 2002. The hub will serve as the western North America distribution center, supplying its stores from San Diego to western Canada to Houston, and many points in between, with about 5,250 container shipments of IKEA furnishings and accessories annually. IKEA is currently building Phase II of its distribution center, adding 850,000 square feet, which will create 300 new jobs in the region.

In 2002, Daisytek International, a \$2 billion wholesale distributor of computer and office supplies and a provider of marketing and demand-generation services, established two new facilities in emerging markets—one at the Tejon Industrial Complex and the other in Albany, New York. Daisytek's California site anchors its western U.S. supply chain, enabling the company to distribute more than 20,000 products from more than 250 manufacturers.

Kern County's economy traditionally has relied on the cyclical industries of oil and agriculture, which have a significant impact on the county's unemployment rate, currently 12.1 percent. However, the county provided a unique opportunity for industrial and retail employers to get access to an available labor force.