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From Our Editorial Board

The future of real estate is driven by transportation

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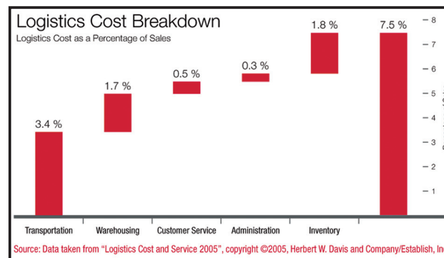
As import volume continues to grow exponentially, North America's infrastructure limitations become more evident. The projection of US-bound containers show a dramatic climb. The capacity concern has fueled the corporate focus on transportation costs, import distribution centers (both coastal and inland), and service. With rising fuel costs, insurance costs and driver turnover; carriers and corporate America are concentrating on how to stay profitable. Regulatory issues like hours of service and the pending 2007 engine specifications are adding to the mix creating less capacity and higher costs with higher service levels expected.

Logistics costs represent approximately 7.5 percent of sales, by far the dominant portion of the logistics cost breakdown.

As alternative port sites develop in importance for our country's throughput, transportation lanes will evolve simultaneously. Truckload capacity will continue to be a challenge as the driver labor pool continues to decline. The



As this graph demonstrates, transportation is by far the dominant portion of the Logistics Cost Breakdown.

American Trucking Association anticipates that freight volumes will grow by 32.5 percent by 2015 and it projects a driver shortfall of 111,000 drivers by 2014. This will force carriers to be more selective in the freight they handle and reject business they view unprofitable. This push has forced the railroads to move more intermodal traffic than at anytime in their history. WERC Watch reported that the 2005 intermodal loadings were up 6.4 percent over 2004, and the trend has continued into 2006 and is expected to continue into 2007. We have seen this increase closer to home as the BNSF Logistics Park Chicago, located adjacent to CenterPoint Properties Intermodal Center in Elwood, handled approximately 400,000 lifts in 2005 and anticipates handling over 800,000 lifts in 2006. In addition, the Union Pacific Intermodal Center in Rochelle is forecasting their approximate 100,000 lifts in 2005 to more than double for 2006.

This amplifies the importance of site selection and positioning for networks that project a large amount of import volume. Import DCs, dray cost, and Foreign Trade Zones become more critical to remain competitive.

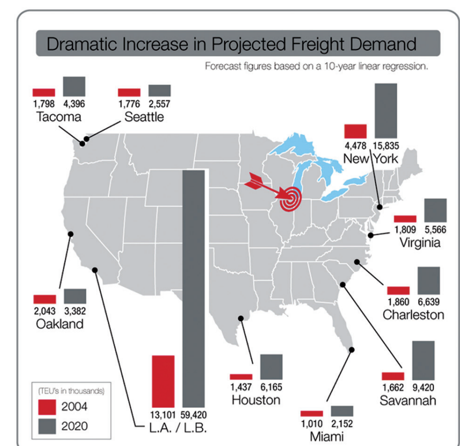
The below chart shows the substantial port growth from 2002-2005.

U.S. Port Activity (2005)

Container Imports	TEU's (000's)	% of Total	'02 - '05 Growth
Los Angeles	7,485	20%	23%
Long Beach	6,710	18%	48%
New York / NJ	4,800	14%	28%
Oakland	2,270	6%	33%
Seattle	2,088	6%	45%
Tacoma	2,066	5%	40%
Norfolk	1,982	5%	38%
Charleston	1,980	5%	24%
Savannah	1,901	5%	43%
Houston	1,582	4%	36%
Port Everglades	797	2%	44%
Totals*	**37,579**	**100%**	**29%**

Totals include all U.S. Ports > 100,000 TEU's. Source Containerizatoin International.

The following illustrates the dramatic increases in projected freight demand. A global company has to consider how this will affect their supply chain.



Source: This figure was first made available by representatives of the US Dept. of Transportation at the Metrans National Urban Freight Conference, February, 2006. The bull's eye was added by CATS' staff, *post facto*.

These volumes are going to have significant effect on the Chicago real estate market and how the product is distrib-

over

uted throughout the Midwest. As supply chain costs continue to be broken down and scrutinized, the proximity of a client's distribution center to its inbound freight (Inland Port) along with its outbound locations will be crucial where distribution centers are located.

The analysis on this page focuses on significant cost savings based on the proximity of distribution centers to the intermodal ramp (dray savings) and the Foreign Trade Zone (FTZ) benefits. The container volumes shown are estimates directly from the BNSF that could be generated by a 1 million square foot import distribution center and take into account a three-year growth in import volume.

Dray Cost Comparison		
	Estimated cost outside Intermodal Center (5+ miles)	CenterPoint Intermodal Center (BNSF LPC) Elwood, Illinois
Approximate roundtrip dray cost to facility	$100	$40
Approximate fuel surcharge in May 2006 (20%)	$20	$8
Estimated roundtrip turns per driver shift	6 roundtrip moves	8 roundtrip moves

	Estimated 40' container volumes*	Minimum cost outside the Intermodal Center	CIC BNSF Intermodal Center	CIC Savings
Year 1:	5,000	$600,000	$240,000	$360,000
Year 2:	9,000	$1,080,000	$432,000	$648,000
Year 3:	14,000	$1,680,000	$672,000	$1,008,000
Combined Years 4-10:	98,000	$11,760,000	$4,704,000	$7,056,000
Projected 10-year savings				$9,072,000
Average savings per year				$907,200
Average annual savings per 1 million sf leased facility				$0.90 psf

In addition, a Foreign Trade Zone (FTZ) benefit analysis should be considered based on potential import volume. One of the primary benefits of an FTZ is the ability to process US Customs entries on a weekly basis while maintaining the same maximum processing fee as if entering on a per entry basis. For example: depending on the value of merchandise, there is an average merchandise processing fee of $250 per entry (regulatory minimum of $25 and maximum of $485), paid a Customs Broker. ***An FTZ allows for one weekly entry of $485 versus a fee per every entry***.

FTZ Benefit Comparison			
	Non-FTZ	FTZ	Annual Savings
Annual U.S. Custom Entry Fees (assuming 2,000 entries & $250 per entry)	$500,000	$25,220 ($485 max fee x 52 weeks)	$474,780

The combined effect is illustrated in the table below:

CenterPoint Intermodal Center Dray & FTZ Combined Benefits	
Projected 10-year dray savings	$9,072,000
Projected 10-year FTZ savings	$4,747,800
Combined average annual savings	$1,381,980
Average annual savings per 1 million sf leased facility	$1.38 psf

Take note that the dray and FTZ calculations represent substantial ANNUAL ONGOING operational savings. With these benefits, a facility with close proximity to an Inland Port is no longer an option but a requirement. The real estate rental rate is fairly insignificant when the whole picture is taken into consideration and the logistics costs are evaluated. With today's speed of business, it's no longer company versus company but supply chain versus supply chain.

*Assumptions for the estimated container volume figures:

1. Container traffic handled by the BNSF;
2. Containers imported via the west coast and delivered to Chicago;
3. 1,000,000 SF distribution facility located in the Chicago metropolitan area;
4. Distribution facility in close proximity to the Logistics Park Chicago (LPC) in Elwood;
5. Estimated container traffic in 20-foot equivalent units per year (TEU) — converted to 40-foot units in the above analysis;
6. Initial three-year period of operations (in TEUs):

(a) Year 1: 8,570 - 11,400;
(b) Year 2: 17,100-20,000;
(c) Year 3: 25,700 - 28,600;
(d) Year 4-10: Maintain same annual volume as Year 3

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