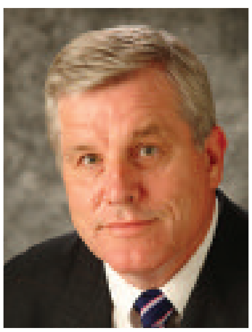
# What's Driving the Need for Intermodal Business Parks?

By Gary Bartek, Associate SIOR



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The United States is experiencing a second wave of master-planned, intermodal on-airport business parks that offer substantial new office building construction and industrial "Big Box" warehouse space. Both types of spaces are placed at strategic inland locations away from dense ports and airport gateway locations. Why?

Answers are not hard to find. According to Keith Biondo, Publisher at *Inbound Logistics*, "The lack of attention in the nation's transportation infrastructure for multiple decades has created serious trade gridlock and inefficiencies in far too many ports, highways, and airports across the country. The need is immediate for industry and users."

George Lauriat, editor-in-chief for *American Journal of Transportation,* say, "In our survey work, only one IMC in 30 was satisfied with the efficiencies and services provided at current U.S. port locations. Companies today want to build facilities exactly the way they want and not settle with what's been made available."

## Europe—the Schiphol Airport Model

European companies have faced similar aged facilities and overworked transportation systems in their histories, and many have found solutions with new office and warehouse complexes. These complexes have been placed at master-planned, real-estate-friendly airports, such as Schiphol Airport in Amsterdam. Airports offer advantages for executive business air travel but also offer operational advantages. These European aviation centers frequently contain multiple nodes of transport including rail, bus, and motor freight services for cargo. Schiphol Airport Group is considered the first successful developer of the air and truck intermodal business park business model by many executives in the global real estate development industry.

"Minimum waiting times are critical for the success of any Intermodal Business Park," says Enno Osinga, Senior Vice President of Cargo at Schiphol Airport. Today, Schiphol Airport is home to more than 1,200 businesses and more than 57,000 airport employees. Schiphol Airport has recorded its share of successes in industrial and office development by attracting businesses with logistics benefits, custom-bonded warehousing services, VAT deferment benefits, an International Enterprise Zone, and automated customs procedures.

For many of today's market leaders, the drivers are greater time efficiencies for travelers and cargo flows. New Schiphol tenant Microsoft BV has plans to move into a new 11,600-square-meter office building by the end of April 2008. The new location will eventually house up to 850 Microsoft employees.

"Everyone's time needs to be valued—we liked the strong accessibility and excellent air service found at Schiphol Airport," says Ed Folge, Microsoft BV's Area Portfolio Manager in Western Europe. "The site will also allow us to use our 1,000-square-meter meeting center to fly executives in from the Continent, the Americas, or Asia; conduct their business; and quickly fly back home—all from an on-airport location."

Schiphol Airport is administered by the Schiphol Group, a federal and city government unit. Shares are controlled by the State of the Netherlands (75.8 percent), the City of Amsterdam (21.8 percent), and the City of Rotterdam (2.4 percent).

"In January 1998, the Airport established a separate real estate group to handle all real estate responsibilities—and that is when revenues and the real estate portfolio really began to take off," said Johan Zeelan, Asset Manager for Schiphol Real Estate. "The portfolio stood at $200 Euros in 1998 and by 2008, grew to $1.2 billion Euros."

## The First U.S. Development

The first U.S. on-airport real estate developments were built at Rickenbacker Airport in Columbus, Ohio, and Alliance Airport in Ft. Worth, Texas, during the early 1990s. Both were early examples of master-planned, site-ready business parks with land space to meet customers' current and expected future facility demands. They attracted large U.S. and multi-national firms, which established distribution centers there.

Today's new generation of on-airport real estate developments credit Rickenbacker and Alliance as the "real estate test tube labs" that began the U.S. success story for inside-the-park transportation carriers and services. For the first time in U.S. real estate history, these sites offered master planned, on-airport, rail, and immediate highway and interstate access benefits at a scale and at one location.

What surprised many was that these first wave on-airport centers, developed without the presence of a strong commercial air passenger service, relied on rail and truck features for their logistics parks historical growth. With five, 10, and 15-plus development years behind them, these U.S. intermodal business parks have attracted hundreds of multi-national companies and tens of thousands of employees.


*Schiphol on-Airport Office Development*

## U.S. Second Wave

The second wave of new U.S. air and truck intermodal business centers is characterized by:

1. Inland locations that offer greater land availability and costing advantages
2. Interstate or immediate access to key highways
3. On-site U.S. Customs facilities
4. Runway access
5. Commercial airport locations with plentiful air passenger services
6. Multiple transport nodes—air cargo carrier and truck carrier connectivity
7. Access to nearby rail intermodal centers

The second wave of developments has been bolstered because industrial users are dissatisfied with traffic congestion and high land costs at the ports and gateway airports that did not exist in 1990s.

The new on-airport business parks have also benefited by newly planned rail-and-truck-only intermodal centers, which are creating fresh demands across a wide spectrum of industries for new space in master-planned industrial business parks. This trend was covered nicely by **Mark T. Sonnenberg, CCIM, SIOR,** Director of the Industrial Sales and Leasing Team for Colliers Turley Martin Tucker in his article, "Growing Strength of Railroad Intermodal Facilities" in the Spring 2007 edition of SIOR's *Professional Report*.

### *Second Wave Examples: AllianceCalifornia – San Bernardino International Airport*

Hillwood, a Perot Company, launched AllianceCalifornia in 2000, when the firm was named master developer of the former Norton Air Force Base. The development was launched to meet the growing needs of industrial users in California. The 2,000-acre development has attracted global companies, including Kohl's, Mattel, Medline, PepBoys, and Stater Bros.

**Key AllianceCalifornia Tenant Footprints**

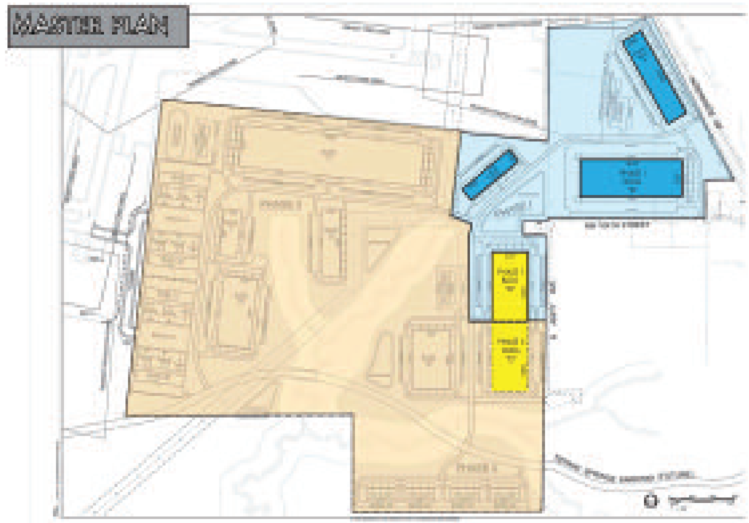
| | |
|---|---|
| Kohl's | 650,000 sq. ft. |
| Mattel | 1,200,000 sq. ft. |
| Medline | 400,000 sq. ft. |
| PepBoys | 600,000 sq. ft. |
| Stater Bros. | 2,000,000 sq. ft. |

"The interest in our inland port location underscores the congestion at Long Beach and the master-planned benefits of AllianceCalifornia at San Bernardino Airport," says David Pelletier, director of communications at Hillwood.

To date, Hillwood has developed five million square feet of facilities since 2000 with an additional one million square feet under construction. Key features include an all-cargo airport with a 10,000-foot runway, onsite U.S. Customs, and immediate access to Interstates 10, 215, and 210.

In 2004, Mattel opened a facility on a 58-acre site within Alliance-California.

"A 1.2 million-square-foot facility requires significant land space and developable land sites," says Ron Headrick, logistics director of Mattel at the San Bernardino Airport. "This size no longer exists under single ownership at Long Beach. [Even] If it did, land costs are four times the cost of inland locations. We are happy to be near Long Beach, close to our Mexican operation, and pleased to be at AllianceCalifornia," he says.




*KCI Intermodal Business Centre – Kansas City International Airport*

### *Southern California Logistics Centre – SCLA Airport*

In March 2007, Stirling Capital Investment announced plans for a 350-acre, 6.5 million-square-foot first-phase development at the Southern California Logistics Center in Victorville, California. Stirling Enterprises and the City of Victorville have a public/private agreement to redevelop the former George Air Force Base.

Brian Parno, Vice President of Stirling Enterprises explains that the drivers for the Southern California Logistics Centre are "the large increases in population, congestion at LAX, and the ports of Los Angeles and Long Beach, and the amenities found on the airport facility in Victorville, California."

A key attribute of the Logistic Center's location is that it is minutes from Interstate 15 (I-15) and U.S. Highway 395. Also, the Center is less than 100 miles from the ports of Los Angeles and Long Beach, and it boasts two intercontinental runways—one 15,050 feet and one 10,000 feet.

In addition, Newell Rubbermaid opened for business in a 407,612-square-foot bulk distribution facility on October 22, 2007. The plant is expected to be at full capacity by October 2008.

## KCI Intermodal Business Centre

At Kansas City International Airport, the "KCI Intermodal Business Centre" will link aviation to real estate and the supply chain in one package, thus offering substantial passenger and cargo services to future tenants. Currently, the airport offers tenants access to more than 240 daily passenger flights. This allows passengers to reach either coast in two and a half hours' flight time. Tenants can accomplish fly-in and fly-back business meetings all in one day, similar to experiences at European airports.

Trammell Crow Company/CBRE has partnered with the Kansas City Aviation Department to develop a truck and air intermodal logistics business park at the Kansas City International Airport. The "KCI Intermodal Business Centre" is located on approximately 800 acres of prime land adjacent to the airport's three runways and close to KCI air cargo carriers with good interstate access to the new rail intermodals.

The project's first phase will include a 500,000-plus-square-foot speculative bulk warehouse distribution facility, expandable to 1,000,000 square feet. Upon completion, the Cross Dock Distribution Center will contain 70-plus loading positions with 32-foot clear ceiling heights.

"There has been a primary shift in the United States toward off-shore manufacturing which is creating new sophisticated warehousing requirements located at inland locations away from the high land cost and developer constraints present at existing ports and gateway airport locations," says **David C. Hinchman, SIOR,** First Vice President of CB Richard Ellis. "Cities like Kansas City, Chicago, and Dallas are benefiting and will continue to grow their office and industrial space."

Construction and on-site preparation of phase one's 183 acres is scheduled to begin by early fall 2008, with construction of the first building to start in early 2009.

KCI Intermodal Business Centre

The Trammell Crow/CBRE Development joins the Allen Group's BNSF rail/truck park and Centerpointe's Kansas City Southern Railroad rail/truck park in Kansas City's latest economic development triangle of inland intermodal centers.

The total planned projected investment is $200 million, and the total building space in the KCI Intermodal Business Centre upon completion will exceed five million square feet. The Kansas City International Airport transports more than 11 million passengers per year via 12 passenger airlines and four all-cargo airlines.

In 2008, this development is one of three large intermodal centers in the works in Kansas City.

## Growing Demand Creates Additional Interest

Growing demand for "big box" warehouse space, demonstrated at these three intermodal centers, has created additional interest in real estate development at on-airport properties. In the United States, industrial users have located on airport properties because they value master-planned facilities, the abundance of large land sites at most parks, and low operating expense environments.

Increased connectivity between air passenger services, air and truck cargo services, and tenants offers airport tenants tremendous potential to increase their operations productivity and manpower efficiency as goods flow to consumers and producers. These features can trigger "deals" by brokers with targeted messaging to different industry audiences beyond just the fact that master-planned business parks benefit customers. On-airport parks that promote truck and air features and offer benefits both to executives and to operations management who use aviation and truck modes for their people and their supply chains, are likely to be accepted across many additional industrial and office industries. For brokers and developers, this means larger target audiences that amplify potential occupancy and greater demands for space for their on-airport projects.

Capacity constraints are driving some of the tenant demand—targeted aviation and logistics benefits will drive even more.