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Dallas' logistics gamble

DAVID BIEDERMAN

UP plans depend on help from Houston, NAFTA highway

Dallas and Houston clash over everything from business to sports to which city has better restaurants. Now add to the mix which has the better distribution and logistics network as the cities grapple for a greater share of containerized Asian freight and intermodal NAFTA traffic.

The intense intra-Texas rivalry is part of a larger battle that involves cities such as Kansas City, Mo.; St. Louis; Memphis, Tenn.; and even Indianapolis, all of which hope to use transportation and logistics assets to become the next big North American gateway for Asian imports.

However, Dallas will have to cooperate with its old rival if it wants to be the linchpin of a new NAFTA corridor. It needs containers from the growing Port of Houston to feed its nascent inland port. Likewise, a bigger and better hub to the north could drive more traffic to the Port of Houston, long the most dominant port in the Gulf of Mexico.

In fact, changing global logistics demands and distribution networks may drive Dallas and Houston closer together — whether they like it or not. The inland Port of Dallas, created through an agreement with the City of Dallas, the Houston Port Authority and the Maritime Administration, is an example. Industry observers wonder whether shippers need two major distribution hubs only 240 miles apart, or whether the Port of Houston and Dallas might be better off working together as one greater logistics “super-hub” served by the Trans-Texas Corridor or “NAFTA highway.”

Dallas hopes to become the place where East meets West — literally. It seeks Asian imports in containers shipped from Los Angeles and Long Beach and intermodal freight moving north from Mexico on the proposed \$180 billion Trans-Texas Corridor or “TTC.” Key to Dallas's aspirations are developments in southern Dallas County, where a new Union Pacific Railroad intermodal yard alongside I-45 is a magnet for logistics developers and promises to complement AllianceTexas and its Burlington Northern Santa Fe Railway hub and airport on the northwestern side of Dallas.

The UP facility is a critical part of plans for the Port of Dallas, which signed an agreement late last year with the Panama Canal Authority to encourage the shipment of Asian cargo through the canal and the Port of Houston to Dallas.

Jon Cross, marketing director for Allen Group, a San Diego-based commercial development firm building a logistics hub near UP's intermodal facility, said forecasts for long-term container growth and the region's burgeoning intermodal capabilities suggest that within 10 years, Dallas will be one of the top two logistics markets in the country.

“There is so much happening in logistics and transportation in southern Dallas,” Cross said.

But skeptics note freight could flow as easily through Houston to points east and north, including Memphis, St. Louis and Kansas City, as to Dallas-Fort Worth. “I don't think the concept of the Port of Dallas will ever apply, at least not in the way it was originally talked about,” said Ed Emmett, founder of consulting firm Emmett Co. in Houston.

Emmett, a former National Industrial Transportation League president and Interstate Commerce commissioner, isn't convinced Dallas is a logical choice for a global trade center. He sees Dallas as a strong regional hub rather than a major inland port. It is unlikely that it will attract container traffic from Houston, as Houston is unlikely to send work and jobs north, he said. Others, however, argue that the inland port will relieve potential congestion at the Port of Houston.

Dallas also doesn't make sense for Mexican traffic coming up along I-35, Emmett said. The roads and rails that pass through San Antonio and Houston are better situated, and those cities have closer cultural ties to Mexico.

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Dallas-Forth Worth is in competition with lots of other cities too. In June, for example, Kansas City Southern announced that it would begin daily service between the Mexican Pacific Port of Lazaro Cardenas and Atlanta — itself a major intermodal hub — via Jackson, Miss.

Overdevelopment is a risk in the Dallas area, Emmett said. “I don’t think you can start building too many logistics parks,” he said. “They will eat into each other pretty quick.”

That’s not the word in south Dallas, where UP’s intermodal facility is a magnet for development.

“Developers are starting to take positions in south Dallas,” said Rob Huthnance, first vice president and Dallas market officer for ProLogis, a major developer and manager of industrial warehouses and distribution centers. “The area is very business friendly, there is less congestion and land prices are lower than in other parts of the region.”

To date, only the northern half of Dallas has been developed, said Bill Blaydes, Dallas City councilman and chairman of the Dallas NAFTA Coalition. Southeast Dallas County has tremendous development potential and the area is poised to emerge as the second major intermodal hub in the metropolitan area, he said.

UP opened its \$100 million, 360-acre intermodal facility last September. Straddling the towns of Wilmer and Hutchins, the facility is designed to handle 365,000 containers annually and more than quintuples UP’s container capacity in the region. In January, the facility received its first Asian container shipment from the Port of Long Beach.

Allen Group is currently building a 6,000-acre logistics park adjacent to the UP intermodal yard. Called the Dallas Logistics Hub, the park has the capacity for 60 million square feet of development at a 35-year build-out. The project represents a huge commitment to the region for Allen Group, which has developed more than 50 commercial properties in the United States. It accounts for a major portion of the company’s total portfolio of 7,500 acres of land under development.

Lured by access to I-45, soaring land prices in the northern Dallas-Fort Worth area and the promise of an inland port, Indianapolis-based Duke Realty Corp. recently began construction of a speculative, 624,000-square-foot distribution facility adjacent to the UP intermodal yard.

The Dallas region has become a national distribution center for a growing number of companies, said Jeff Turner, Duke senior vice president. While about 95 percent of containers coming into the UP facility are from southern California, the prospect of increased NAFTA traffic via Mexican deep-water ports and the Port of Houston led Duke to expand its presence in the region; the new facility is the company’s first foray into south Dallas.

“We are trying to find the best of both worlds in terms of Asia and Mexico,” Turner said.

Duke opened its Dallas office in 1998 and now has approximately 40 Class A buildings totaling 9.3 million square feet. They are 96 percent leased. By 2010, the company hopes to have 2 million square feet of industrial space in the region.

The surge in industrial development is occurring as the largest road and rail construction program proposed since the creation of the Interstate highway system more than 50 years ago gets under way in Texas.

In 2002, Gov. Rick Perry announced a 50-year, \$180 billion expansion of the state’s roadways and rail lines. Known as the Trans-Texas Corridor and unofficially as the “NAFTA highway,” the project would create a vast new network of passenger vehicle lanes, commercial truck lanes, passenger and freight rail lines and adjacent utility zones.

Much of the money for the TTC would be raised through tolls and fees, and parts of the corridor would be built and operated by private companies.

The project’s main roadway components are TTC-69, part of an eight-state, 1,600-mile highway that would connect Mexico, the U.S. and Canada, and TTC-35, a 600-mile, 1,200-foot-wide toll road that would extend from Mexico to the Oklahoma border north of Dallas.

In May 2005, the Texas Department of Transportation and Cintra-Zachry, a partnership of Spanish toll road builder Cintra and Zachry Construction Corp. of San Antonio, announced a 50-year master development plan for TTC-35. The first stage includes a four-lane, \$6 billion toll road from Dallas to San Antonio and \$1.2 billion for commuter and freight rail projects.

The plan also calls for a new 600-mile freight-rail line from Dallas to Mexico that could take up to one million trucks per year off of I-35. Road congestion is a huge problem in the Dallas-Forth Worth area and throughout Texas because of a fast-growing urban population and NAFTA-related trade.

According to the Texas Department of Transportation, by 2025, traffic in the state will have increased 132 percent and an average of 260,465 trucks will travel Texas roads each day. Already, 20 to 38 percent of current traffic on I-35 is attributed to commercial trucks.

In March 2005, Gov. Perry signed agreements with Union Pacific Railroad and BNSF Railway to work together to move freight lines out of densely populated urban areas.

“The Trans-Texas Corridor will provide unprecedented trade opportunities, a faster transportation system that moves freight and hazardous materials out of city centers,” Gov. Perry said.

But the TTC faces many hurdles before construction can begin. Opponents of the project attack the planned use of tolls, foreign investment in U.S. infrastructure and the massive use of eminent domain to acquire roughly 600 square miles of land for the project. The proposed route would displace close to 1 million residents, half of them minorities; consume more than 2,400 square miles of prime farmland and 13 square miles of parks; affect the habitats of 46 threatened or endangered plant and animal species; include five federally recognized historic sites; and traverse nine aquifers.

A 4,000-page environmental impact statement released in April, prepared by the state DOT and the Federal Highway Administration indicated that the portion of TTC-35 between Dallas and San Antonio would be built east of Dallas, disappointing many in the city who want it to run parallel to the existing I-35. More than 50 public hearings will be held this summer to address the issue.

The proposed routing would cause major problems for the Dallas-Forth Worth area by failing to alleviate NAFTA-related congestion, said Blaydes. The fact that TTC-35 would be a privately operated toll road will also generate opposition. Toll roads pose problems for people in Texas and elsewhere, especially when states allow developers to set toll rates and designate exits.

“No one likes toll roads but it was considered the only way to get the highway built in our lifetime,” said Blaydes.

Developers with facilities near the UP intermodal yard want the road closer to Dallas. Cross said that it only makes sense to locate the highway “close to the action” and Turner said that it is important for the regions industrial base that TTC-35 be located as close to Dallas as possible.

Russell Laughlin, senior vice president of Dallas-based Hillwood, which operates AllianceTexas, said that future growth at AllianceTexas will come from Asian-based intermodal traffic shipped through the Ports of Los Angeles and Long Beach. While the highway component is important, the key to the success of the corridor is the proposed rail ring around Dallas-Fort Worth, he said.

Currently, about 50 coal trains move through the region; moving commodity trains to the perimeter would free up capacity for intermodal container growth.

“It would energize the region and position AllianceTexas for the next 25 years of growth,” Laughlin said.