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CenterPoint Intermodal Center sidesteps slowdown

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As cash-strapped landlords continue lowering rents in their quest to "just fill space," some short-term deals on big box industrial space are down to \$3 gross in the I-55 and I-80 Corridors.

However, about where these "main and main" highways meet, the CenterPoint Intermodal Center is able to keep its rent prices at about the same level they've been for the past few years while still attracting tenants.



The reason-users realize that the transportation savings and foreign trade zone benefits of locating at CIC offset their real estate costs, according to Dan Leahy, executive vice president of NAI Hiffman.

A recent lease transaction there backs up Leahy's claim. In late October, Cypress Medical Products signed a seven-year lease, valued at approximately \$10 million. The firm is scheduled to take occupancy of 384,000 sq ft at the first of two speculative Import Distribution Centers at CIC in April 2009, according to Leahy. He and Adam Roth, senior associate at NAI Hiffman, represented CenterPoint Properties in the transaction.

The multi-divisional manufacturing company that receives much of its product from overseas via rail is vacating 250,000 sq ft in Libertyville to be adjacent to the BNSF Logistics Park-Chicago. The firm supplies products to various medical markets as well as the food service, industrial, home health, government and consumer markets.

"Locating their distribution facility in direct proximity to the inland port will provide them with significant transportation savings," said Brian McKiernan, development manager at CenterPoint Properties. "We are confident that the operational savings Cypress achieves by locating in the park will grow significantly over time which will underscore the forward-thinking mentality they displayed in this decision."

Cypress Medical Products is the first customer to locate in CenterPoint's IDCs, which total 2.4 million sq ft. These facilities represent the largest speculative developments in the I-80/I-55 markets. Construction on the first IDC was completed in late 2008, and construction on the second facility is expected to commence immediately. Cypress' portion of the facility will feature 32-ft clear ceilings, 155 trailer parking spaces, 43 dock doors and two drive-in doors.

Keith Puritz and Brett Kroner of CB Richard Ellis represented Cypress in this transaction.

Leahy explained that Cypress and other prospects, when calculating overall costs, discover the ongoing savings in their import drayage costs, making it more beneficial to pay a premium to be at CIC than to locate 10 to 20 miles away.

"[Cypress] could have leased space in I-80 for less than what we did for them, but the transportation savings and the FTZ savings long term will save them more money," Leahy said. "It's why we're seeing success at the park."

One of the primary benefits of a Foreign Trade Zone is the ability to process U.S. 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 \$200 per entry (regulatory minimum of \$25 and maximum of \$485). An FTZ allows for one weekly entry of \$485 versus a fee per every entry, according to an NAI Hiffman report.

Transportation expenses, however, may be an importers' largest consideration. "Fuel is down right now," Leahy said. "That is a temporary state. Fuel won't remain at these levels for the next 10 years. That potential liability makes it more logical for [prospects] to come to [CIC]."

Leahy said Cypress was reevaluating its supply chain network for the long term. "We were able to provide significant long-term savings and a great aggressive lease rate for the next few years," Leahy said.

"Real estate costs are a small component of overall costs," Leahy continued. "If they're saving \$300,000 a year in transportation costs, which is realistic for someone like Cypress, that alone is 80 cents in rent, and it's an ongoing benefit. When fuel goes back up to \$150 a barrel, the savings will go up even more and you will have taken out that variable of those drayage costs."

"Cypress also had a large amount of trailers and at CIC they have the capacity to do a large amount of trailer parking," Leahy added.

A brochure for the park states that CIC has a heavier truck parking ratio than any other municipality. It also touts higher driver productivity because drivers can do twice the number of turns per day. Also, the on-site container yard capacity reduces dwell time and demurrage exposure.

Since CenterPoint Intermodal Center opened in 2002, more than 8.5 million sq ft of warehouse / distribution facilities have been constructed and leased within the park, creating approximately 8,200 new jobs.

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