

“Chicago Rail: Economic Development for the Region”

by Matt Baron, NAIOP Chicago Staff Writer

This is a summary of the April 22, 2010, meeting of the Chicago chapter of NAIOP, the Commercial Real Estate Development Association.

Its members gathered at the Riverway Auditorium in Rosemont to hear insights from moderator Curtis Spencer, President & CEO, IMS Worldwide, Inc., and panelists Stephen Hess, Senior Director Real Estate Development, Excel, Inc.; Eric Pitcher, Regional Management Economic Development, BNSF Railway; Ron Sucik, Associate, The Tioga Group; and Carl Warren, Director Strategic Planning Intermodal, CSX.

A flurry of statistics permeated this NAIOP gathering: hundreds of millions of square feet in industrial space... billions of dollars of investment and spinoff economic benefit flowing from intermodal terminals...the mathematical relationship between lifts and TEUs.

But overriding it all was this simple message: the closer a company can get to the tracks that criss-cross our continent, the better your business prospects will be.

And Chicago is indisputably—and indefinitely—a hub for the foreseeable future in this regard. No other city poses a serious threat to the region’s formidable strategic location.

In fact, one of the first data points that moderator Curtis Spencer shared underscores that truth. Whereas Houston has three intermodal terminals—and it’s the same figure in Dallas - Chicago has 20 with another one under construction in Joliet, according to a chart that he showed the audience.

Some of the most modernized intermodal terminals are here as well, noted Eric Pitcher, with more room for technological improvements that could increase capacity even further.

“It’s an incredibly competitive market,” said Pitcher. “In the future, older facilities can be used to a greater extent than we ever imagined in the past...We’re in wonderful shape (in the Chicago area).”

Rising gasoline prices also bode well for rail traffic, panelists said. The biggest trucking-to-railway shift, Spencer predicted, will be deliveries spanning more than 500 miles.

He applauded the [BNSF Railway website](#) for its creation of a calculator for prospective customers to figure out the relative cost of shipping via rail versus truck.

On another note, Spencer cautioned that Chicago has developed a reputation as “a big black hole” when it comes to making transfers of containers or truckloads. That was a recurring comment he heard from attendees at a recent Trans-Pacific Maritime (TPM) Conference in Los Angeles, where attendees negotiate rail and shipping rates.

Ron Sucik said local activity is high, and rising. It’s now more than 1,700 trains and 37,500 railcars daily through Chicago, and in two decades that figure could come close to doubling, with a projected 67,000 railcars daily, said Sucik.

Part of the uptick will flow from fewer railway/highway conflicts. A month ago, as part of the American Recovery and Reinvestment Act, [\\$133 million was approved](#) for improvements that will increase fly-bys and fly-overs that reduce accidents, delays and pollution, Sucik noted.

He referred people to the [CREATE program website](#), which provides more detail about the partnership between the U.S. Department of Transportation, the State of Illinois, the City of Chicago, Metra, Amtrak and the nation’s freight railroads.

Developments in one part of the country have a ripple effect elsewhere. Another panelist, Carl Warren, said the [CSX Intermodal Hub in North Baltimore, Ohio](#), projected to be finished in the first quarter of 2011, will enable more effective use of Chicago-area infrastructure.

“This is the thing that will put fuel on the fire in terms of improving the connection between East and West,” said Warren. “We’ll be able to load trains on the West coast with beyond-Chicago traffic and not stop here.”

That development will “free up capacity in Chicago-area ramps” and hasten the flow of rail traffic from the West Coast and extend the capacity of facilities in Chicago.

“We’re excited about the way the network is changing,” said Warren.

What won’t change is the economic wisdom of industry setting up shop close to intermodal facilities.

“No question there’s a benefit,” said Stephen Hess, noting that companies receiving a significant amount of freight via intermodal sites can see savings of up to 30 percent “when you measure end-to-end transportation costs.”

Plus, customer demands—such as transportation managers being driven to reduce costs—“bode well for future intermodal growth,” said Hess.

He cited three key trends pointing to a continued rise in train traffic: the volatility of fuel costs, Corporate America’s ongoing green movement push, and the surging desire to lower our carbon footprint.

Industrial customers in the market for real estate are increasingly seeking flexibility. “That’s the key word now,” Hess observed. “They want to be able to downsize and grow within the same lease term in the same building.”

This pressure may result in heightened demand for “slightly smaller buildings in the future,” such as those in the 150,000- to 300,000-square foot range, Hess forecast.

Meanwhile, train traffic stemming from the delivery of international markets is significantly down over the past four years. Since a 2006 peak, this sector of the market has steadily declined, most recently with a 13-percent drop between 2008 and 2009.

Gradual growth is projected over the coming years, though a return to 2006 levels probably won’t happen for another six or seven years.

During an extensive question-and-answer period, panelists addressed a variety of topics. Among them:

- One of the growth industries, said Pitcher, will be [“transloading,”](#) or redistributing items for the final 200 or 300 miles of their journey.
- During the 2001-2002 recession, the railroad companies cut back on infrastructure improvements. But this time around, they are “really investing” to the tune of \$41 billion the last two years, said Sucik, with double- and triple-tracking part of that effort.

“They have positioned themselves to get motor carrier market share in a way they never did before,” said Sucik. Whereas market share “would always shift back and forth” in the past, “this time I think the positioning is different” and railroads will hold onto an increased share “if not forever, at least for a very long time.”

Other market forces reinforce this shift, he added, citing as an example [Wal-Mart’s putting suppliers on notice](#) that they will be keeping an eye on their carbon footprint in evaluating which companies they will do business with.

- Industrial real estate is driven by “velocity,” which “necessitates more on-the-ground coverage,” said Spencer. He pointed to the similar populations of metro Los Angeles and all of Florida (about 18 million each), but the vast gap in industrial space—metro L.A. has about 1 billion square feet, or roughly twice Florida’s level.
- “While trucking is a viable option, and a better fit than rail “in some cases,” the problem that field is facing is attracting drivers, said Sucik. “The demographics are aging and the younger ones don’t want to be out of town. Until wages go up, they will have a problem.”
- There is a future in direct rail-serve buildings, said Warren, and it’s an issue of “scale and efficiency.”

“The challenge is can you come up with a user or a group of users that can consistently develop trainload volume?” said Warren. “The enemy is (being) low-scale and highly disaggregated.”

For that reason, added Spencer, railroads are attracted to industrial parks where the cumulative rail needs of multiple businesses make it an economically viable proposition.

- Sucik recommended attendees learn more about the Intermodal Association of Chicago, whose mission is to facilitate the growth of intermodal transportation, by visiting its [website](#).

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