

THE JOURNAL OF COMMERCE

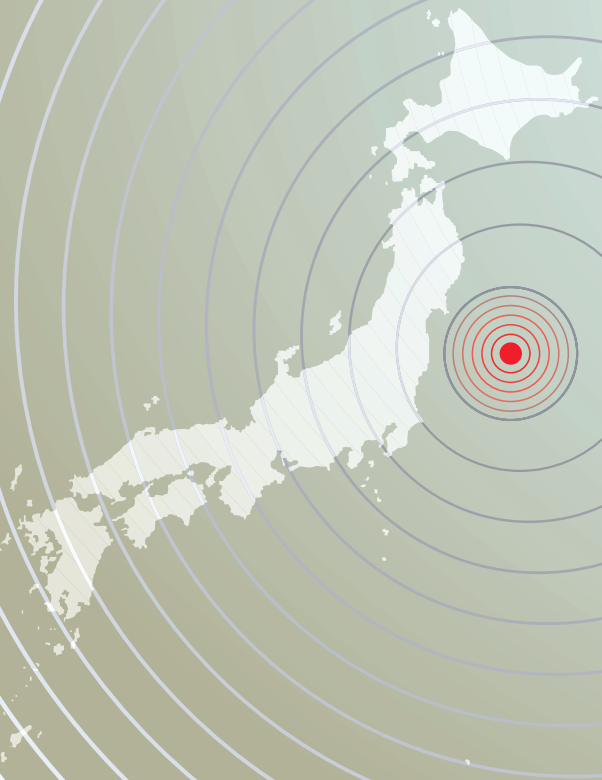
Mar.28

2011 V.12 N.13
\$10.00

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DISASTER REACHES THE SUPPLY CHAIN

*From auto parts
to electronics,
distribution channels
buckle as Japan
struggles to recover*



By Bill Mongelluzzo

false starts, it was effectively barred from participating in development of facilities in Chennai and Mumbai after it was denied security clearance. There has been no subsequent indication that Indian authorities have changed their stance on a company they perceive as too closely bound to a national rival.

In 2005, Hutchison's biggest rival, PSA, acquired a 20 percent stake in Hutchison's Hong Kong-based operation HIT. The surprise the move engendered in the market was nothing compared to what was to follow barely a year later when PSA acquired a 20 percent stake in Hutchison Port Holdings for \$4.4 billion.

The deal represented a rapprochement between the rivals. At the time, port assets were breaking records worldwide. Amid ever-increasing asset prices, PSA and Hutchison were coming head-to-head over prospects that in the long run could do neither any good. In the end, the Hutchison sell-off was a bow to pragmatism. As a deal, it might have been inevitable, but Li could not have sold at a better time.

Now, as a publicly traded entity, HPH Trust will hold, operate and develop Hutchison Group's existing and future deep-water container businesses in China's Guangdong province and in Hong Kong and Macau.

In volume — and considering Hong Kong and Shenzhen as one market by virtue of their geographical proximity — Hong Kong and Shenzhen in 2010 made up the world's busiest container port market and trading hub, with total throughput of approximately 39.2 million TEUs.

The reason for selling off 75 percent of the assets that provide 50 percent of the revenue from Li's port assets is to balance the books. The \$5.5 billion will help reduce Hutchison Port Holdings' debt of \$19 billion. And reducing the company's debt-to-capitalization levels to a more comfortable range of 20 to 25 percent leaves the port operator with more elbow room to acquire more assets. **joc**

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BUILDING ON GROWTH IN SOUTHERN CAL

Industrial real estate activity escalates, and so will property values and rents

INDUSTRIAL REAL ESTATE activity is picking up in Southern California, and that's a good sign for the economy and for shipping — the 1.5 billion-square-foot market is a bellwether for warehouse and logistics operators nationwide.

Much of the activity is linked to the ports of Los Angeles and Long Beach, where container volumes grew 15 percent in 2010 after falling more than 20 percent from late 2009 through 2009.

Watson Land, with properties in the harbor area known as the South Bay and in the expansive Inland Empire about 50 miles east of Los Angeles, began seeing increased leasing activity in early 2010, presaging last year's sharp upturn.

It started with short-term leases, and as the year progressed, about 50 percent of the leases turned into long-term contracts, said Lance Ryan, vice president of marketing and leasing. "Activity really built up around the holidays," Ryan said, and leasing continues this year.

Third-party logistics companies have driven much of the post-recession business. As in the residential market, prices for industrial real estate dropped substantially from the 2007 peak, so 3PLs grabbed the good deals, said Scott Weiss, director of business development at Lakeland, Fla.-based Saddle Creek. "It's a buyer's market, he said.

Port-related industrial real estate in Southern California falls into several markets based on the distance from the harbor. The South Bay region close to the ports is almost built out and hardly experienced a recession. The vacancy rate rose to about 4.5 percent in 2009, but by the end of 2010, it dropped to 3.5 percent.

The Inland Empire suffered dearly

during the recession. Several properties of 500,000 to more than 1 million square feet came on line just as port volume was plummeting. "Real estate fundamentals were falling apart," Ryan said.

In the Inland Empire west, vacancy rates shot up to more than 15 percent, but have since retreated to about 7 to 8 percent, Ryan said. In the Inland Empire east, which is even farther from the ports, vacancy rates hit about 22 percent, and have since come down to about 13 to 14 percent.

The rebound in the Inland Empire is good news for newer industrial real estate hubs such as Kern County north of Los Angeles. When the Inland Empire gets tight, interest in that region picks up.

Some previously started projects came on line in 2009 during the depth of the recession. Last year was quiet, but activity in 2011 is picking up, said Melinda Brown, director of Kern County Economic Development

With cargo volume at the ports growing steadily, logistics companies are coming in with a greater sense of urgency, hoping to break ground in late 2011 or early 2012 and opening facilities in 2012 to 2013, Brown said.

Kern County developers such as Tejon Ranch attract port-dependent retailers, including IKEA and Famous Footwear. In addition to processing imports, the warehouses outside the congested Los Angeles basin serve as regional distribution facilities for the 11-state western region, Brown said.

Retailers, 3PLs and direct importers in Southern California choose a location based on factors such as proximity to the port, land and labor costs. Those decisions often involve the frequency with which an operation turns its inventory.

Drayage rates in the South Bay, such as to

By Peter T. Leach

Saddle Creek's facility in Buena Park, Calif., are about 20 percent lower than to facilities in the Inland Empire, Weiss said. Retailers and importers that favor South Bay location turn inventories about eight to 10 times per year.

However, real estate in the Inland Empire costs about 15 to 20 percent less than in the South Bay, so the Inland Empire attracts operations where cargo rests longer. Retailers and importers there turn inventories only about four to six times per year, Weiss said.

The Inland Empire has a surplus of properties in the 500,000- to 700,000-square-foot range, and most structures were built in the last 10 years so they can be put back into use with a minimum of alteration, Ryan said.

Although modern properties generally have ample space for truck parking, properties in the South Bay expanded container storage acreage the past few years in response to the ports' extended gates program, PierPass. Truckers pick up containers at night to avoid the ports' traffic-mitigation fees, but because the warehouses work only during the day, the containers are drayed to the warehouses and stored overnight in a secure yard.

Now that activity is picking up, real estate values and rents will increase as well. That is occurring for properties close to the ports, and at large, modern structures in the Inland Empire. "There is a flight to quality," Ryan said.

For the Class A properties, move-in concessions common during the recession are scarce now. Some asking prices are increasing modestly.

Industry veterans also are watching closely the types of structures that shippers will seek as carriers stop offering customers free use of chassis. Some shippers may require less storage space but more truck bays to quickly turn the chassis and container.

However, 3PLs shouldn't be affected because they are used to turning equipment quickly. "Our job is to unload the container in less than 24 hours," Weiss said. **joc**

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POST-PANAMAX LOGISTICS

Terminal expansions and new DCs on shore are signs of a new strategy behind a larger Panama Canal

FROM THE BRIDGE of a container ship passing through the Panama Canal, the signs of the canal authority's huge expansion project are clearly visible.

The scarred earth of the new channel where the bigger locks will be built lines the western shore of the canal at the Pacific entrance, and the deep channel for the new locks on the Atlantic side runs parallel to the Gatun Locks. In between, enormous dredges are deepening the entrances to the new channels and in Gatun Lake, where they are deepening the existing channel and clawing away at a small island that sits in the path of a straighter channel that will speed passage.

In a sense, however, the investment behind the scenes is almost as ambitious. That's the effort being undertaken to expand the infrastructure around the canal with the goal of changing trade flows as surely as the deeper canal is supposed to affect global shipping.

New marine terminals are being built on the Pacific side, the existing terminals on the Atlantic side are being expanded, and zones for warehouses and distribution centers are being enlarged. All of this activity is designed to turn Panama into a strategic business center between east-west trade lanes that will serve as a regional headquarters site for companies, a transshipment hub for carriers and a logistics center for companies distributing goods throughout North and South America — turning Panama, in other words, into the Singapore of the Western Hemisphere.

"For retailers, it's not just a bigger ditch that can move bigger boats through the canal," said Casey Chroust, executive vice

president of retail operations at the Retail Industry Leaders Association. "It's about how we can incorporate the Panamanian logistics infrastructure into our supply chain networks to take advantage of cost benefits, service plays and time to market."

Chroust organized a visit to Panama last month by logistics executives of 20 large U.S. retailers, including Target and Wal-Mart, to get a firsthand look not only at the canal's work on locks but also at the action on the shore. The retailers are looking at Panama's potential as a logistics platform when the Panama Canal Authority completes a new set of locks at the end of 2014 that can accommodate ships that can carry twice as much cargo as the existing locks.

"As the expansion of the canal is taking place, it only makes sense to consider the wider logistics alternatives available in Panama," Chroust said. "The forward looking retailers are in the process of analyzing their distribution networks to capitalize on these advantages."

The prospects for north-south trade are just as important to the canal as east-west shipping.

As South American raw materials become feeder stocks for growing markets in Asia and the U.S., the Panama Canal Authority is positioning the country as a transshipment hub for raw materials being shipped to Asia as well as for Asian products transshipped to the south. "We are showcasing Panama as the gateway to Latin America and also from Latin America to Asia and the rest of the world," said Rodolfo Sabonge, the canal authority's vice president of market research and analysis. "The expanded canal will enable larger