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BUSINESS | LOGISTICS REPORT

Old Steel Mill to Hum With Jobs Again—in Logistics Sector

Investors plan to turn Sparrows Point site in Baltimore into a distribution hub, tapping crucial transportation links



Remnants of the old Sparrows Point steel mill in Baltimore. Investors hope to create up to 12,000 jobs at the site over the next decade, mostly in distribution and logistics. PHOTO: ROBBIE WHELAN/THE WALL STREET JOURNAL

By ROBBIE WHELAN

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BALTIMORE—For more than a century, Sparrows Point churned out steel destined for the Golden Gate Bridge, naval destroyers and other projects. Once the largest steel mill in the world, it closed in 2012 after decades of decline. But next year, workers will return to the site—only now to sort packages for FedEx Corp.

Investors who bought the mill plan to announce this week that they have signed leases for warehouses to be built by FedEx and Glencore PLC's Pacorini Metals. They also have a commitment for an automotive shipping terminal.

The hope is to eventually build about 15 million square feet of industrial property—about the size of six Empire State Buildings—most of it in the distribution and logistics industries. The project could add as many as 12,000 jobs over the next decade, the investors say.

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Maryland is supporting the proposal with tax breaks for companies that sign on, and Baltimore County has asked the state to pay for as much as \$100 million in road and bridge improvements near the project. State lawmakers are expected to discuss the request during this year's legislative session.

“When I first bought this thing, people said I was crazy. They said, ‘What are you going to do with an old steel mill?’ ” said Roberto Perez, executive vice president of Hilco Redevelopment Partners, the real-estate arm of the firm that bought Sparrows Point out of bankruptcy in 2012 for \$72 million. “My mind went immediately to logistics. I think we can become one of the most efficient places to move products in North America.”



Hilco executives Roberto Perez, left, and Gary Epstein look at the future site of a FedEx distribution center at the Sparrows Point site. *PHOTO: ROBBIE WHELAN/THE WALL STREET JOURNAL*

Investors and government officials have similar dreams for dozens of abandoned industrial properties. Millions of manufacturing jobs have disappeared from U.S. cities over the past decade, while employment in warehousing and transportation has surged.

In recent years, steel mills in Texas and Pennsylvania, shipyards in Louisiana and former military sites in Joliet, Ill., and Oakland, Calif., have been reinvented as warehouse clusters, marine terminals and truck depots.

Pulling off the transformation is tricky. Proposed hubs that lacked highway and rail access or proximity to large population centers have failed, saddling local governments with empty warehouses and debt.

Critics say logistics hubs are no panacea. The average warehouse and logistics worker earns \$15.47 an hour, compared with \$22.36 in the metals manufacturing industry, according to the Labor Department. Online retailers and shipping companies leasing warehouses can pull up stakes more easily than a steel company that invested in a plant.

“The distribution system and warehouses have employment, and so logistics is viewed as a kind of savior,” said Goetz Wolff, a professor of urban planning at the UCLA Luskin School of Public Affairs. “But it’s not a solution in the sense of a real transformation.”

Most logistics hubs rely on government incentives to attract their first few major tenants. State and local governments offered hundreds of millions of dollars in incentives over two decades to attract more than 300 companies to AllianceTexas, a logistics hub near Fort Worth. The project is widely considered a success.

In other cases, logistics hubs fail to attract a critical mass of businesses. In Winston-Salem, N.C., a logistics cluster launched in 2008 struggled after computer maker Dell Inc. closed a manufacturing plant there in 2009.

“Sometimes when you build it, people simply don’t come,” said Yossi Sheffi, head of the logistics program at Massachusetts Institute of Technology who has written a book about logistics hubs. “That’s what happened in North Carolina.”

Baltimore County Executive Kevin Kamenetz, a Democrat, said in an interview that he would consider the project a success if it creates 2,000 well-paying jobs, though he is hoping for more than 10,000.

Developers hope to replicate the success of Greens Port Industrial Park, built at a former steel facility in Houston. Over a decade, the site has been converted into a logistics park with 3 million square feet of warehouses, access to docks and rail.

Sparrows Point’s appeal is in its transportation hookups, its developers say. Shipping berths sit in 40 feet of water, deep enough for midsize container ships and commodity carriers to dock. About 100 miles of track connect to rail lines. The site is adjacent to an interstate highway connecting to I-95.

“All these old-line industrial sites are on great real estate,” said Michael Moore, a former shipping and port executive brought in last year to lead the Sparrows Point project. “The same things that make them great for manufacturing—the land, the water, the rail—make them great for logistics.”

Sparrows Point saw its first steelmaking at the end of the 19th century, and in 1916 was purchased by Bethlehem Steel, eventually becoming the manufacturer’s flagship. By the middle of the 20th century it was one of the largest employers in the state, with more than 30,000 workers during its peak years of production.

But shifts to foreign producers and new methods of steelmaking precipitated the mill’s decline. Bethlehem Steel filed for bankruptcy in 2001, and Sparrows Point changed hands three times before being sold to Hilco Global, a bankruptcy liquidator with a real-estate arm that focuses on distressed industrial projects.

In 2014, local private-equity firm Redwood Capital Investments teamed up with Hilco, injecting capital that valued the project at \$110 million. This year, the management team rebranded the project Tradepoint Atlantic and signed 15-year leases with FedEx and Pacorini Metals.

Pacorini, which provides logistics services for metals producers, plans to add 740,000 square feet of warehouse space. FedEx plans to open a 306,000-square-foot distribution center and employ 150 people on a part of the mill where workers once did finishing work on steel rods and rolls of steel wire. The company expects the logistics park to eventually include some of its shipping customers, said David Westrick, a FedEx spokesman.

“It’s all about location,” Mr. Westrick said. “We need to have access to major highways, which that site certainly gives us.”

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