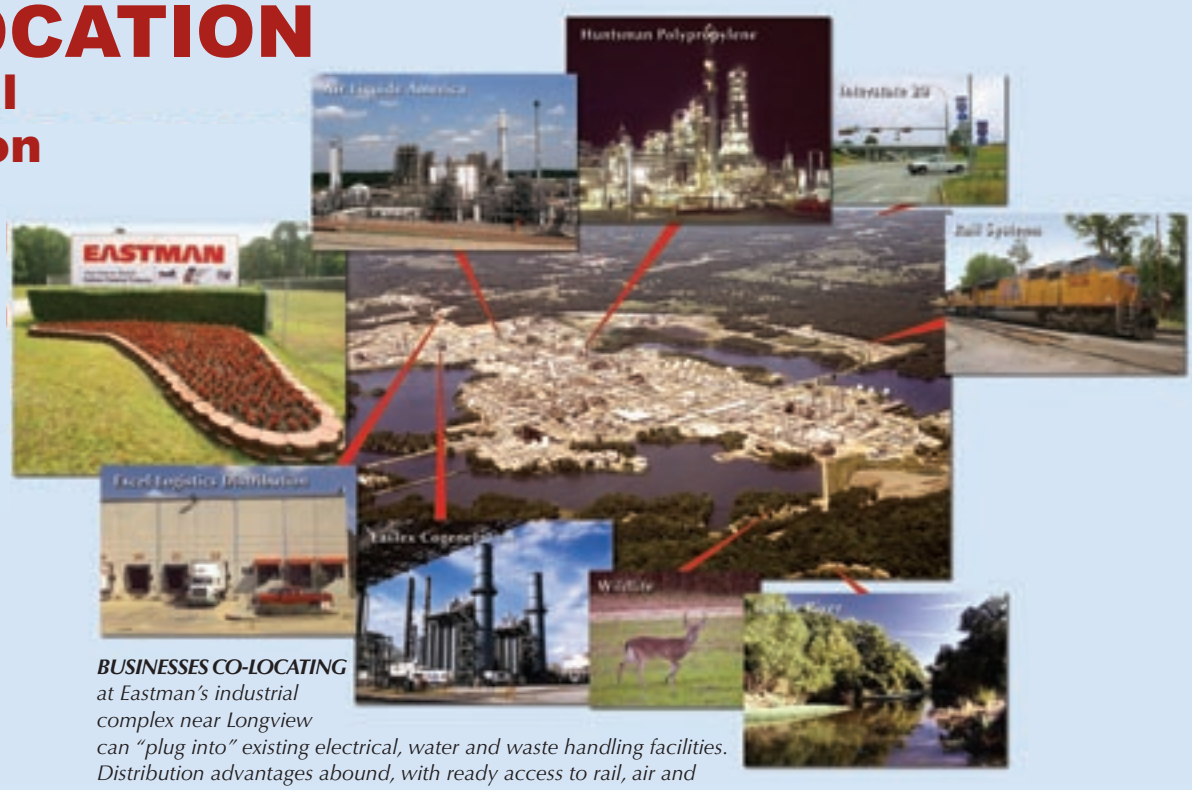
A Reprint from *Tierra Grande*

CO-LOCATION
Industrial Innovation Pays

By Harold D. Hunt



BUSINESSES CO-LOCATING *at Eastman's industrial complex near Longview can "plug into" existing electrical, water and waste handling facilities. Distribution advantages abound, with ready access to rail, air and interstate highway (I-20) transportation. Support services include a staff that works directly with the Texas Commission on Environmental Quality to ensure compliance with permitting and auditing regulations. Eastman prides itself on protecting the environment.*

It's been said that most people are more comfortable with old problems than new solutions.

And speaking of old problems, here's a classic: income-producing real estate cannot be picked up and moved to a better location when a demographic shift occurs or local economic conditions change. Two fundamental characteristics of real property are physical immobility and long economic life.

As a result, managers of commercial real estate must periodically seek new ways to keep real property viable and maintain its long-term profitability. Eastman Chemical Company took a fresh approach to this old problem and came up with a new solution that works.

At 6,000 acres, Eastman's 50-year-old industrial complex near Longview, Texas, is the second largest chemical site in the state. In a bold move, Eastman recently decided to seek out firms willing to build their own facilities and "co-locate" on the Longview property.

According to Mike Childress, manager of communications and public affairs for Eastman's Longview facility, "We began to realize that we had underutilized real property assets here near Longview. Then we came up with the idea of co-location."

Co-location refers to the integration of two or more distinct businesses that share a site, support services and infrastructure to save money.

"The good news," says Childress, "is that it's a win-win situation for everyone. By inviting in co-locators, we are allowing outside firms to build on and profit from our strengths. In return, we benefit through better utilization of our real estate and infrastructure. We also get to upgrade our real property using other firms' money."

Eastman's expectations for financial return from co-location are based on a sliding scale. The firm considers the co-tenant's level of integration with Eastman's operations, its potential for long-term expansion and its track record on corporate citizenship, safety and protection of the environment.

The Longview co-location program has been so successful that Eastman's corporate office has begun to implement it at other plant sites.

Marketing Co-Location

Eastman has eagerly accepted external assistance in promoting co-location at the Longview site. Partnerships have been formed with the Longview Economic Development Corporation and the Texas Department of Economic Development. The company also is calling on the resources of its own corporate sales force, as well as current co-locators at the site, suppliers, contractors and rail service providers in the search for other co-location candidates.

An Eastman representative indicates the company would be willing to negotiate fees to find co-tenants if the fee structure was tied to successful completion of a co-location agreement. Obviously, co-tenants would have to fit well with the company's current operations.

The company sees the Longview site as a good fit for pharmaceuticals manufacturing, an emerging industry in Texas.

INTRODUCTION OF NEW TECHNOLOGY *has enabled Eastman and co-locating businesses to voluntarily reduce nitrogen oxide emissions beyond federal air quality requirements.*

Leaving no opportunity unexplored, Eastman has contacted universities and biotech research centers as well.

Four remarkably diverse companies have already co-located at Eastman's facility. They are Air Liquide America, L.P.; Huntsman Polypropylene Corporation; Excel Logistics Distribution Corporation; and EasTex Cogeneration, L.P.

Support Services

Co-locating on the site of an existing chemical plant is not practical for every company shopping for an industrial site. However, the potential benefits to firms with compatible site requirements are greater than might be expected.

Companies co-locating with Eastman have the ability to tap into a vast array of in-house support services, thus allowing them to focus on their core business issues and attainment of their financial objectives. Reducing or eliminating the need for support services may lower a co-locator's manufacturing costs as well.

Support services available at Eastman's site include specialty expertise in the fields of engineering and construction, security and safety, emergency response, environmental and chemical analysis, logistics, employee training and information technology.

Eastman also employs a staff of 17 to work directly with the Texas Commission on Environmental Quality on regulatory permitting and auditing.

Onsite facilities available to co-locators include research and development support, warehouse space and multifunctional maintenance space. In addition, Eastman maintains its own medical and health services facilities.

Extensive Infrastructure

Depending on the nature of their businesses, companies co-locating with Eastman can benefit from a "plug and play" environment that rapidly ties them into Eastman's established infrastructure. Firms are able to bring new facilities online faster than if they developed separate, stand-alone facilities.

Along with utilities such as electricity and potable water, co-locators have access to high-pressure steam, cooling water, state-of-the-art waste-handling facilities and an assortment of industrial gases. As a bonus, electricity can be provided at lower than ordinary prices through agreements with EasTex Cogeneration, L.P. The amount of electricity savings is negotiated based on usage.

Transportation infrastructure includes air and rail facilities, immediate access to I-20 and an extensive pipeline system linked to the Gulf Coast and nearby salt dome storage facilities. Burlington Northern Santa Fe and Union Pacific provide Eastman's facility with on-site rail switching and rail storage yards. The East Texas Regional Airport, located only two miles from Eastman, is a designated free trade zone with a heavy-lift runway and commuter air service.

EAST TEXAS REGIONAL AIRPORT *has a 150-foot by 10,000-foot runway that accommodates the largest industrial cargo plane in existence. The airport has hosted NASA's 747 shuttle transporter, Air Force One and military aircraft (above) participating in training exercises. The adjacent Gregg County Industrial Airpark and foreign trade zone (FTZ) gives Eastman co-locators the option of importing and storing merchandise duty free and free of local, state and federal ad valorem taxes until it leaves the FTZ.*

Site Availability

Because Eastman is reluctant to sell their land, the company negotiates long-term ground leases with co-locating firms. "Greenfield" or "greyfield" sites are available for development.

Greenfield, defined as land outside an urban area that has not been previously developed, is a term familiar to most real estate professionals. However, *greyfield* is a relatively new term. Frequently used to describe abandoned retail malls, a greyfield can be broadly defined as an underused, improved site with no environmental damage.

The current set of Eastman co-locators found no need to demolish greyfield site improvements. Should any demolition be required, Eastman will negotiate equitable cost-sharing for removal. None of the sites at Eastman's Longview location are "brownfields" or environmentally damaged.

The greater Longview area profits through creation of direct jobs, increased sales for local suppliers, a larger tax base and a stronger corporate foundation.

Environmental Benefits

Eastman's Longview site meets air quality standards under the federal Clean Air Act. However, the arrival of Air Liquide America and EasTex Cogeneration produced an added benefit — a voluntary reduction in the level of Eastman's nitrogen oxide output.

Air Liquide's new facility, commissioned in early 2002, implemented a more efficient process for producing a gas vital to Eastman's chemical operations. The superior "clean burn" technology eliminated an older technology, resulting in a significant reduction in nitrogen oxide emissions.

EasTex Cogeneration's facility was primarily developed to produce competitively priced electricity and steam. However, the cogeneration plant also made it possible to shut down Eastman's coal-fired boilers, further reducing the plant's nitrogen oxide emissions.

Community Benefits

Eastman and its co-locators are not the only beneficiaries from this site promotion effort. The greater Longview area profits through creation of direct jobs, increased sales for local suppliers, a larger tax base and a stronger corporate foundation. The multiplier effect has increased indirect employment and economic activity in the community as well.

While it is indeed true that real property cannot be relocated in an economic downturn, skillful management and willingness to implement new solutions can go a long way toward solving this old problem. Co-location has proven a valuable tool in the effort to keep older industrial sites productive.

Dr. Hunt (hhunt@recenter.tamu.edu) is an assistant research scientist with the Real Estate Center at Texas A&M University.

MAYS BUSINESS SCHOOL

Texas A&M University
2115 TAMU
College Station, TX 77843-2115

http://recenter.tamu.edu
979-845-2031
800-244-2144 orders only

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