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A PROMISING FUTURE FOR FOREIGN TRADE ZONES

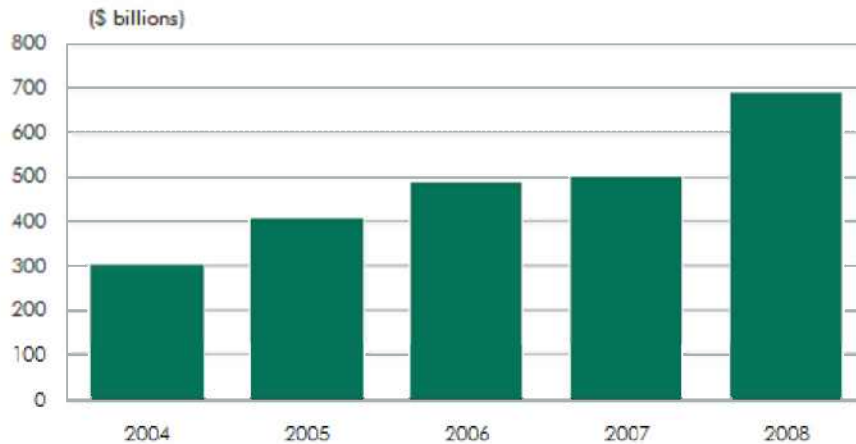
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Job losses continue and the economic recovery is only just beginning; however, one bright spot is the strong rebound in trade evident in the GDP data. Since reaching a trough in early 2009, both imports and exports have increased by more than 17%.

An aspect of U.S. trade not often discussed is Foreign Trade Zones (FTZs). FTZs are the U.S. version of free trade zones—areas in which businesses and manufacturers enjoy reduced trade tariffs and tax breaks. Many are located in developing countries like China, Brazil, and Mexico. Their American equivalents receive relatively little attention. That should soon change, however—especially among those in the industrial real estate business.

A short backgrounder on FTZs: FTZs in the U.S. are under the supervision of U.S. Customs and Border Protection and for the purposes of taxes and duty payments are regarded as outside the customs territory of the U.S. Foreign goods imported into FTZs, if then processed or re-manufactured and sent to a foreign country, are not taxed. If they do enter the U.S. market, they are taxed only when they are taken out of the FTZ. The latest available information indicates that there are 164 active FTZ projects, representing about 2,500 firms with 330,000 employees. The combined value of shipments into FTZs totaled \$692.6 billion in 2008—a whopping 127% increase over 2007. (Notably, the number of FTZ zones did not increase significantly during the same time period.)

Goods Received by Foreign Trade Zones Have Risen Significantly



Source: U.S. Customs and Border Protection, 70th Annual Report of the FTZ Board to Congress (12/2009).

What kinds of foreign-made goods are received by these FTZs? Everything from cars, petroleum, electronics, textiles, machinery, and pharmaceutical products. The top FTZ in terms of in 2009 was the Alliance Global Logistics Hub in northern Fort Worth, Texas, with \$5.4 billion worth foreign-made goods passing through the area. The Port Authority of New York and New Jersey came in second with \$4.1 billion followed by Harris County, Texas with \$3.8 billion.

Recently, there has been a flurry of activity around U.S. FTZs. Companies are looking to cut costs wherever and however they can, and locating a business in an FTZ is one way of doing so. It's not too surprising then, that a number of new and expanded FTZs are in the works. Officials in Riverside County—a key distribution market and one of the largest industrial markets—are trying to expand their FTZ, as are others in Kansas City, Atlanta, and Madison County, Ill., among many others. A new FTZ was approved in Kern County, Calif. earlier this month; it includes sites at Bakersfield's Meadows Field Airport and at the Tejon Industrial Complex in Lebec.

New, streamlined procedures issued by the U.S. Department of Commerce that make it easier for businesses to receive foreign trade zone designation are another factor likely to lead to an increase in leasing activity in FTZs. Previously, the expensive process took more than a year to complete but now will be shortened to less than 45 days, with lower costs incurred. The Dallas-Fort Worth FTZ, located in and around the Dallas-Fort Worth International Airport, will be the first to take advantage of the new regulations and will expand coverage to surrounding counties, which will likely lead to new leasing activity in the area. The area surrounding the airport is already in high demand—industrial facilities located in the DFW Airport submarket of Dallas (the CBRE-EA submarket in which the FTZ is located) have experienced only one quarter of negative net absorption since the recession began near the end of 2007. Our data on the Dallas market as a whole, on the other hand, show negative net absorption for the previous seven quarters.

Those who are like me and approach April 15th with trepidation can take heart in the fact that at least some things in this country aren't taxed!

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