Inland Distribution and Site Selection Strategies

Presented to:

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Discussion Points

• What are the current drivers for DC site selection

• What is happening in retail?
  • Do we need a lot of dc’s or should it be done through the back of stores
  • Increased scrutiny on automation

• What is the state of Industrial Real Estate?

• What markets will dominate 2013?

• Where are the niche opportunities?

• How does Post-Panamax affect site selection?
Strategic Drivers

Workforce
Service Levels

Transportation

Cost
Real Estate

Operating Environment

Start-up

What Drives Decisions?
Logistics Cost Drivers

Source: Establish, Inc/Herbert W. Davis and Company 2006 Database
What is Driving Change? The Rise of eCommerce

Forrester Research also reports U.S. consumer e-retail spending is expected to increase **62 percent** by 2016.

U.S. E-retail Sales (in billions)

- **$202** in 2011
- **$226** in 2012
- **$252** in 2013
- **$278** in 2014
- **$304** in 2015
- **$327** in 2016

U.S. shoppers will spend **$327 billion** on online shopping in 2016, up 45 percent from **$226 billion** in 2012.

2002: **$42B**
Defining the *Right* Distribution Strategy

Companies continually evaluate their network to define the right distribution strategy to align distribution with the desired business requirements:

**Location**
- Facilities in optimal location based on combination of cost, service and risk?

**Role**
- DC capable of playing the right role and providing the services required?

**Plan**
- Have the right plan to ensure success? If not, how flexible is it?

**Justification**
- Supportable business case to ensure service and profitable growth?
What’s different here?
Post PANAMAX Thoughts

- No TEU Bonanza headed to USEC
- Ports have to expand to compete
- Check out Panama as a logistics hub for the Americas
- Understand your location’s proximity to people
- Real Estate impact will be moderate
Line of Indifference

Reaches 61% of US Population

8,000 TEU Ship

For a typical Asia-USEC voyage, shifting to an 8000 TEU ship expands the market reach of the USEC ports.

Assumptions
- Shanghai to Louisville, KY
- Canal tolls based on current rates
- Owned ship, financed at current rate
- Inland move by rail

NOW

4000 TEU ship

2015

8000 TEU ship

*Share of the US population reachable by rail
National Absorption

US INDUSTRIAL STATISTICS

NATIONAL SUMMARY | NET ABSORPTION | AVAILABILITY

SOURCE: CBRE U.S. Industrial MarketView

Number of Cities with Neg./Pos. Absorption

Dots increase in size every 200,000 SF

1Q 2Q 3Q 4Q 1Q 2Q 3Q 4Q 1Q 2Q 3Q 4Q

2009 2010 2011 2012

6,000,000 SF
3,000,000 SF
200,000 SF

CA
Largest 30 Industrial Markets
Industrial Rents: back to previous peaks by 2015
National Trends

- Increase in manufacturing requirements across the country
- Retail, especially e-commerce is HOT
- #3pl’s very active
- Service level vs Transportation Cost-ongoing debate
- Don’t underestimate the power of a teenager with an iphone!
- Proximity to population base and deep, flexible labor pool is critical
- Increase in build-to-suit activity in more markets due to limited larger space options-especially SoCal
- Speculative development is cautiously returning