

LET'S  
TALK

# Session Summary

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- The World Turned Upside Down
- Most Robust Industrial Real Estate Market in History
- Fundamentals Lacking Fundamentals....Pricing, Rents...."Irrational Exuberance"?
- Food As a Major Growth Driver
- Translation for Location Strategy?
- Watching The Headlines... What Happens Next?



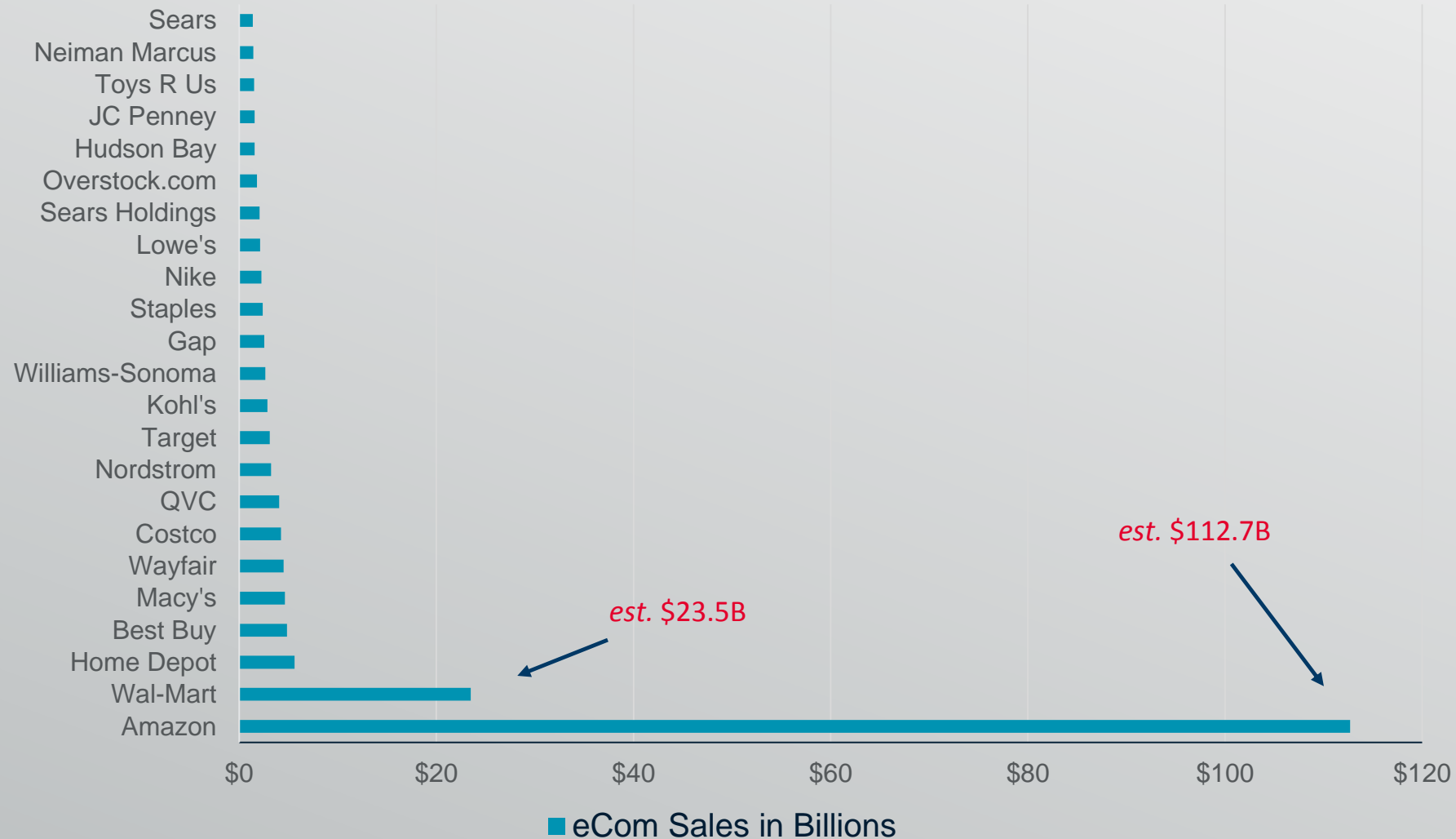
# Is American Retail at a Historic Tipping Point?

- San Antonio Express News

- The shift has been building gradually for years. But economists, retail workers and real estate investors say it appears that it has sped up in recent months and may be at a tipping point.
- About 89,000 workers in general merchandise stores were laid off in 2017. That is more than all of the people employed in the U.S. coal industry.
- The job losses in retail could have unexpected social and political consequences, as huge numbers of low-wage retail employees become economically unhinged, just as manufacturing workers did in recent decades. About 1 out of every 10 Americans works in retail.
- Store closures, meanwhile, were on pace in 2017 to eclipse the number of stores that closed in the depths of the Great Recession of 2008.

# Recent Annualized eCommerce Revenues (Select Retailers)

There's Amazon... and Then There is Everyone Else...



# Repeat After Me: *This is Not the Retail Apocalypse*

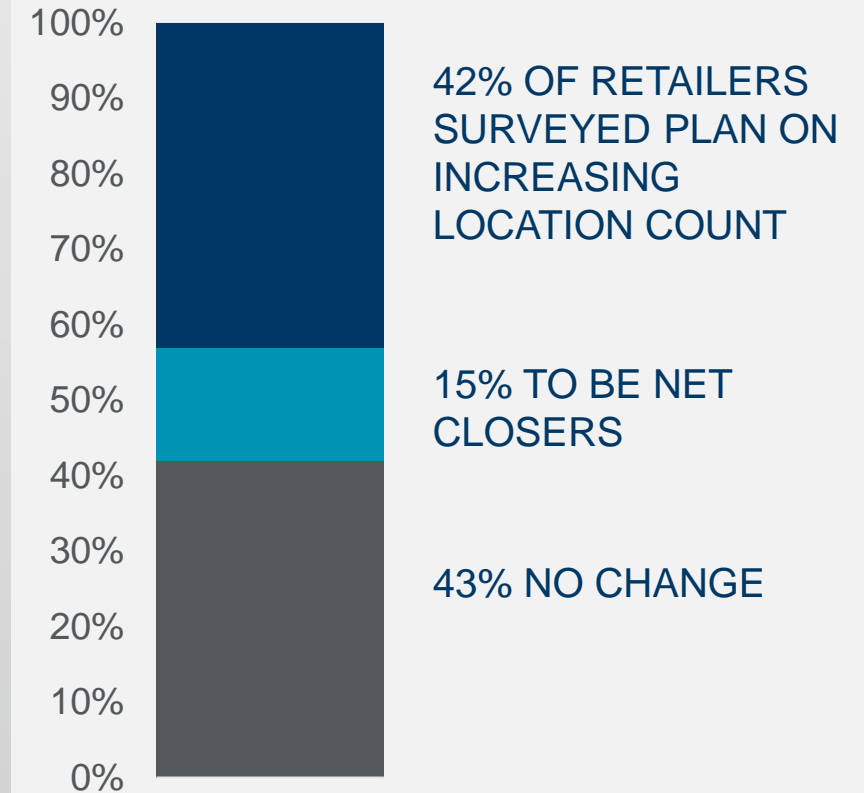
Clearly in the Midst of Disruption

FOR EVERY  
**1** CHAIN NET  
CLOSER,  
**2.7** CHAINS TO BE  
NET OPENER



16 CHAINS  
ACCOUNTED FOR  
**48.5%** OF TOTAL STORE  
CLOSINGS

5 OF THE 16  
ACCOUNTED FOR  
**28.6%** OF TOTAL STORE  
CLOSINGS





# Redevelopment of Retail Assets for Last Mile?

Not Nearly as Easy as It May Seem... At Least for Now





# In the Meantime.....Expansion Still Has Legs

## Logistics & Industrial Demand Drivers Look Good

### Consumer Confidence

Back to Earth—slight pullback is no cause for concern given that confidence was at a 17-year high



**122.1**  
December



Current H1 2018

### Industrial Production

Back on Track—a weaker dollar, more-stable oil prices and global growth is boosting production

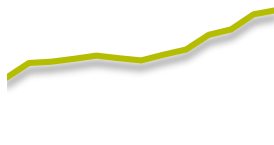


**+3.4%**  
November  
Y/Y %



### Retail Sales

Strong Finish—U.S. retail sales ended strong, capped strongest year for sales growth since 2014



**+4.2%**  
December  
Y/Y %



### ISM Manufacturing Index

Major Mojo—second fastest pace of expansion in six years, new orders growing at fastest pace in 13 years



**59.7**  
December



### Light Auto Sales

Solid Sales—first year in which total annual sales have fallen since 2009, but sales still solid



**15.8M**  
November  
YTD unit sales



### Containerized Imports

Record Run—2017 registered five of the seven highest-volume imports months on record



**+5.9%**  
November  
Y/Y %



### New Home Sales

Super surge—November single-family sales surged 17.5%, fastest pace in 25 years



**+9.1%**  
November  
YTD unit sales



### Intermodal Rail

Banner Year—2017 was the best year ever for U.S. intermodal rail volume



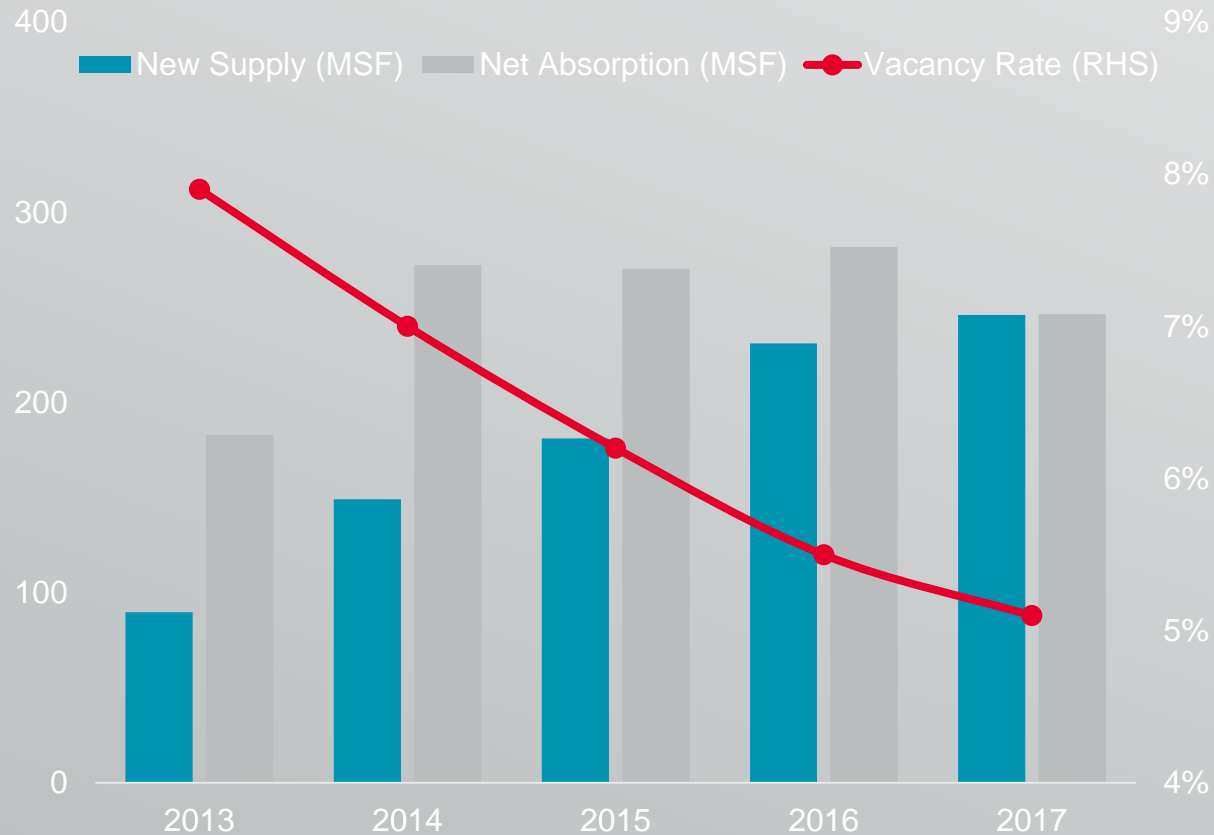
**+5.3%**  
December  
Y/Y %



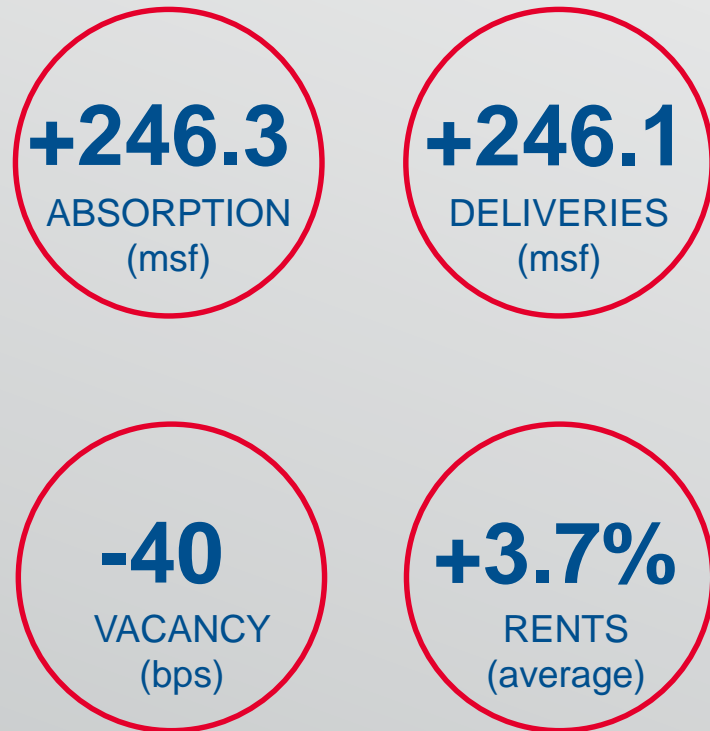
# Market Overview

## Industrial Market – North America

### Absorption, Deliveries, Vacancy Rate Prior Years



### 2017 U.S. Industrial Performance Past Year

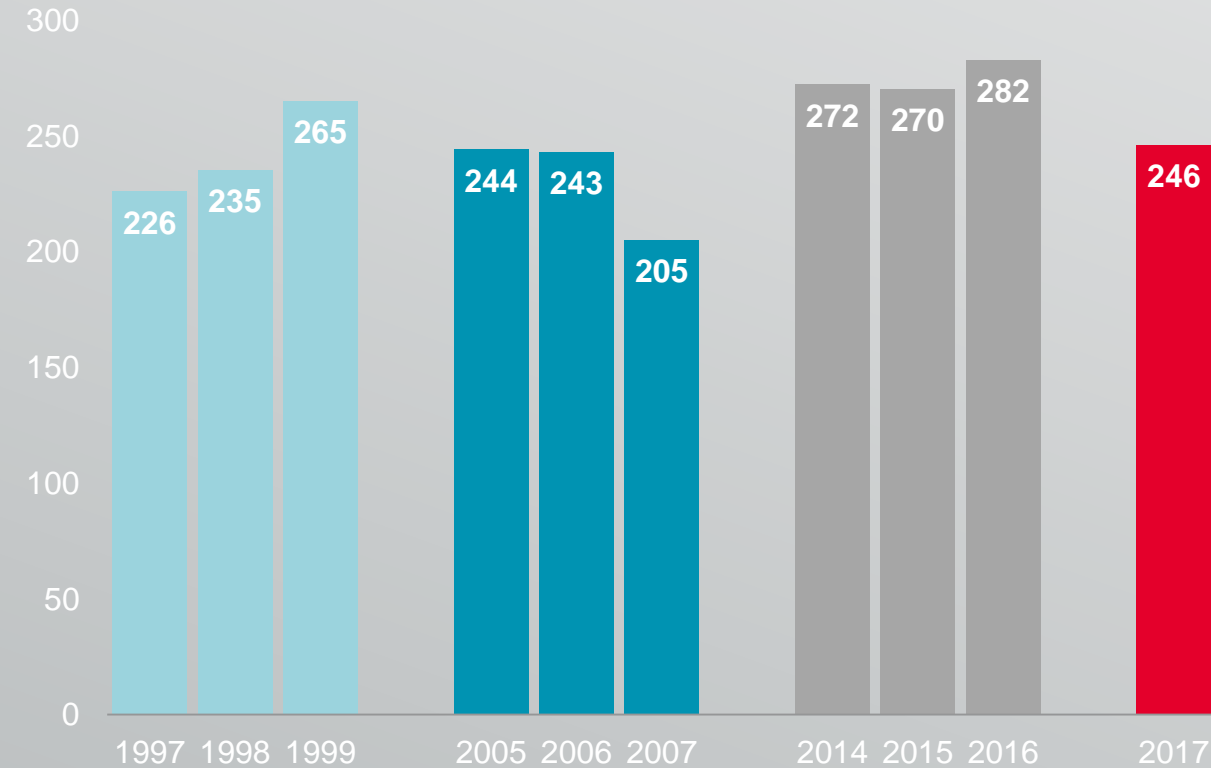




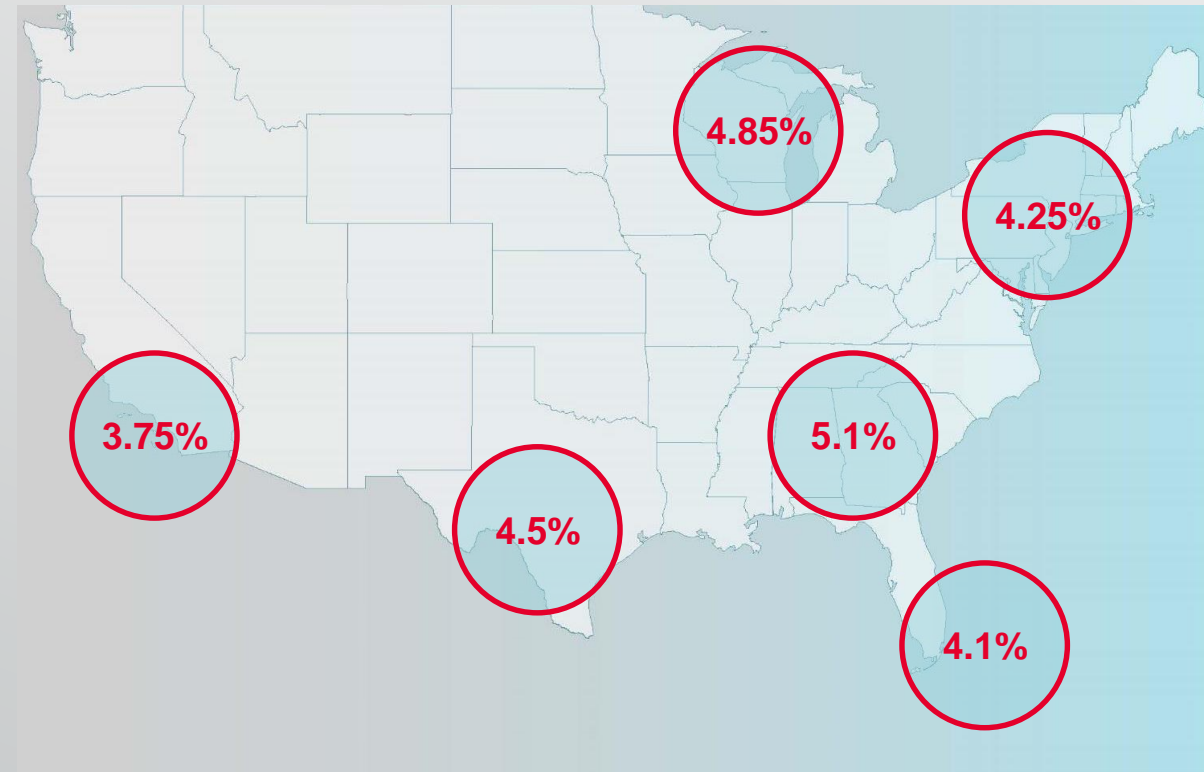
# U.S. Industrial Sector Dynamics

The Market is Tighter Than Ever

The last 4 years are 4 of the biggest ever

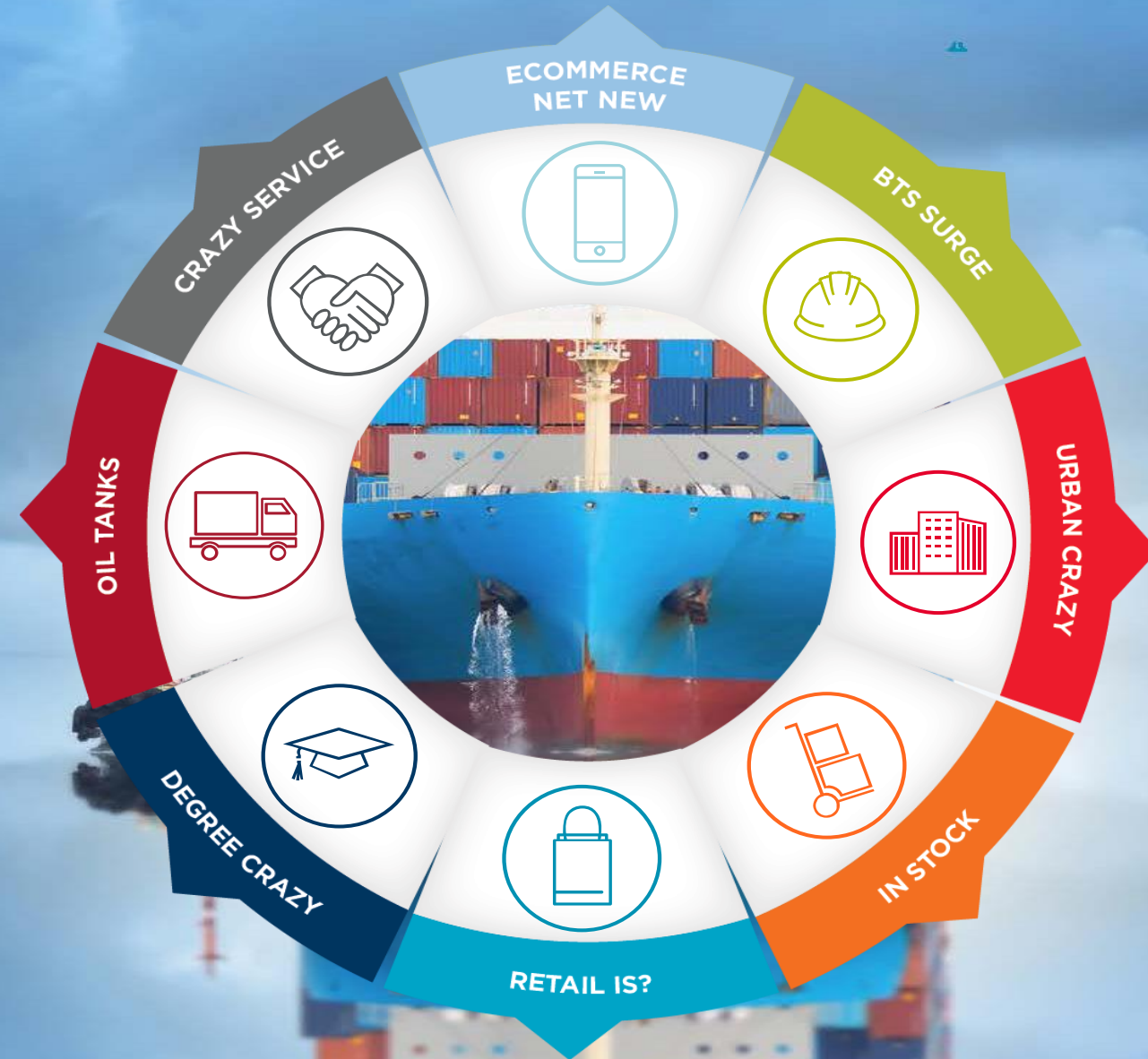


Bond type returns



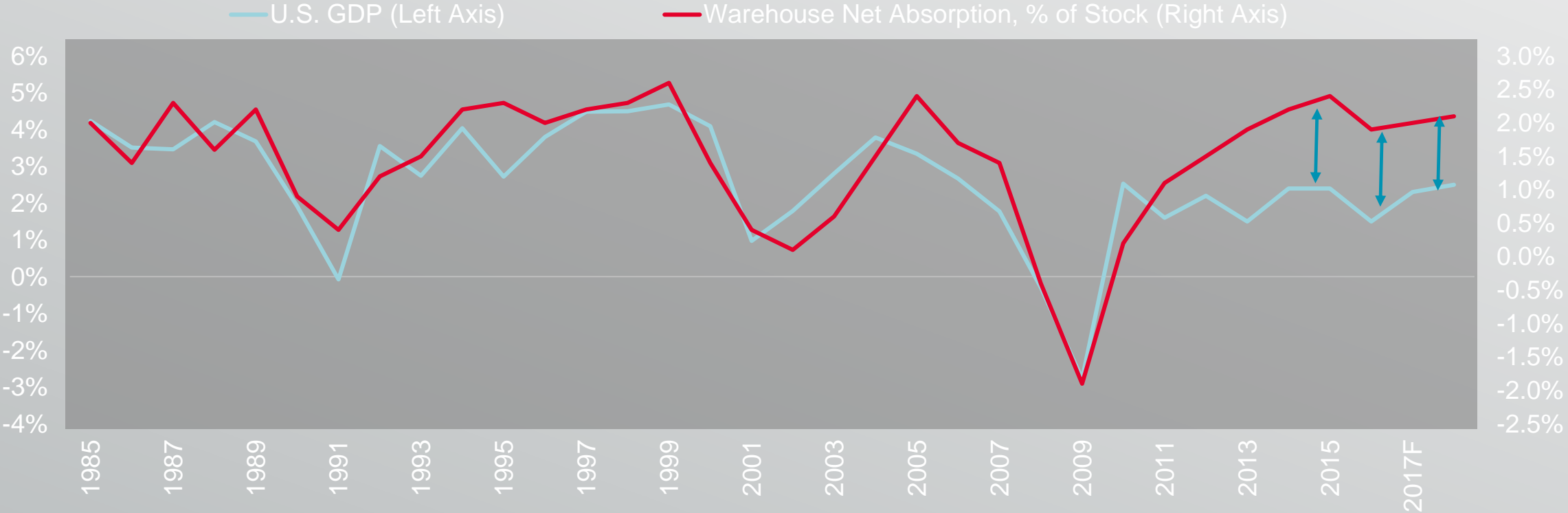
# EVERYTHING IS DIFFERENT: Eight Challenges Driving Prices & Absorption

- Ecom Grows at 5X Retail
- What IS Retail?
- Is service free?
- Oil recovers
- Advanced Education, The Enemy
- SKU/location combos drive inventory higher
- Urbanization inflating infill property values
- BTS explosion: expensive, critical facilities



# Tech and Demo-Driven Lift to Logistics

## U.S. GDP (Annualized Rate) vs. Warehouse Net Absorption as % of Inventory

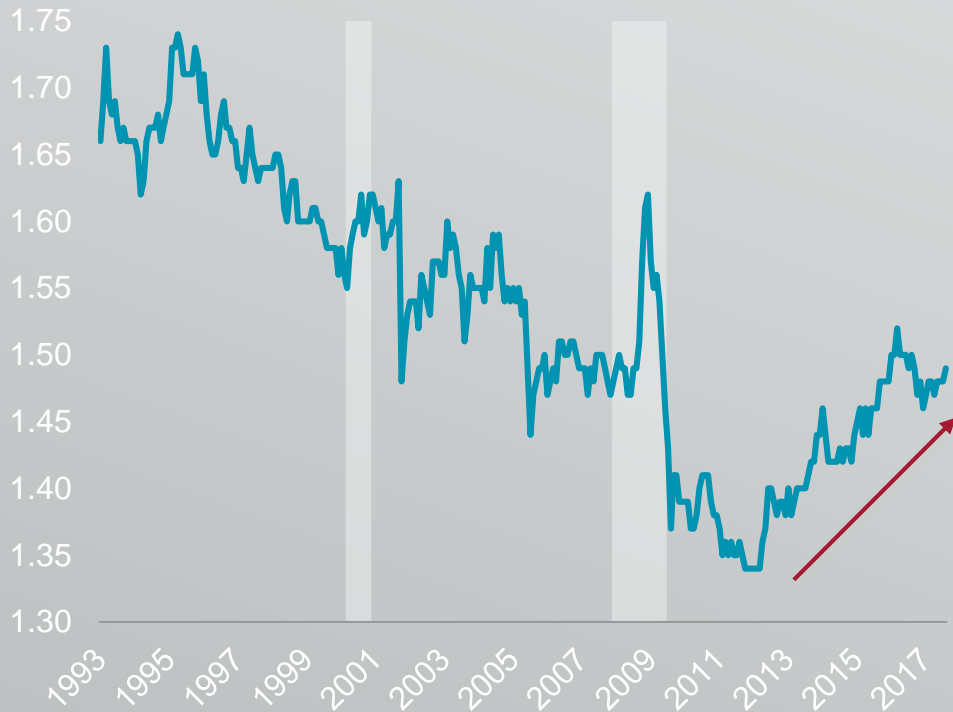


Source: Bureau of Economic Analysis, Cushman & Wakefield Research

# The Rules of Fulfillment Have Changed

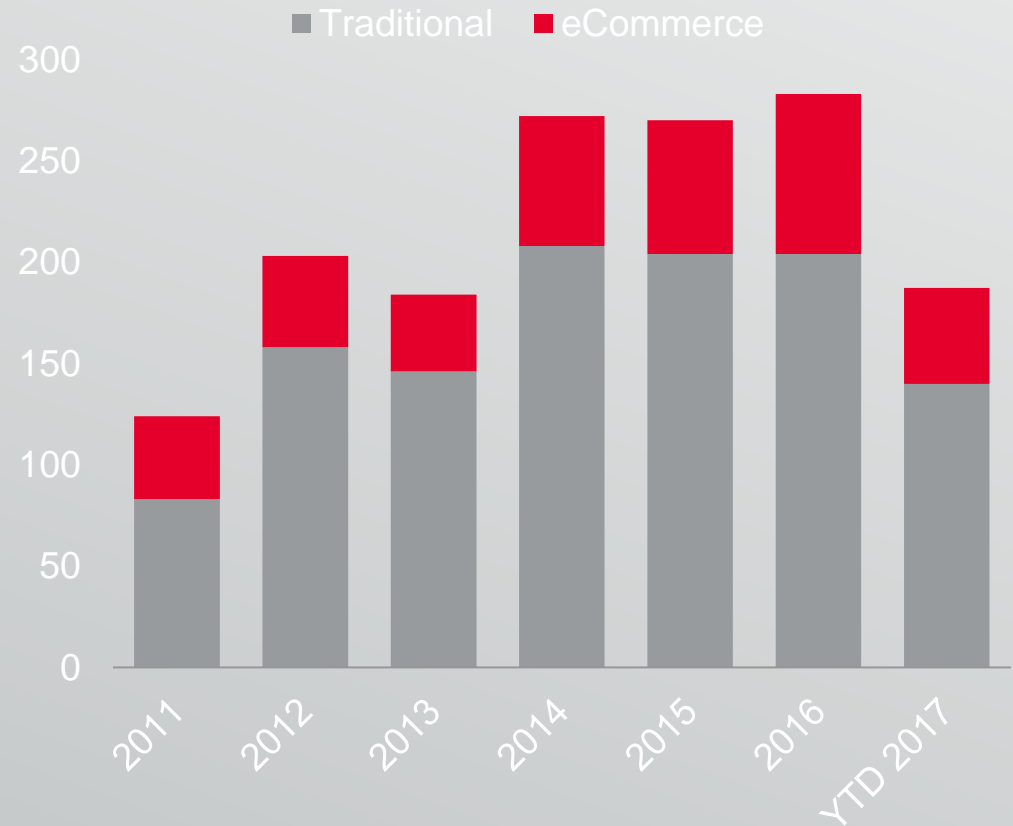
## The Need for Speed

Retailer's Dilemma  
Retailer's Inventory-to-Sales Ratio



Source: Census Bureau, Federal Reserve, Cushman & Wakefield Research

How Important is eCommerce to Industrial?  
Net Absorption (MSF)

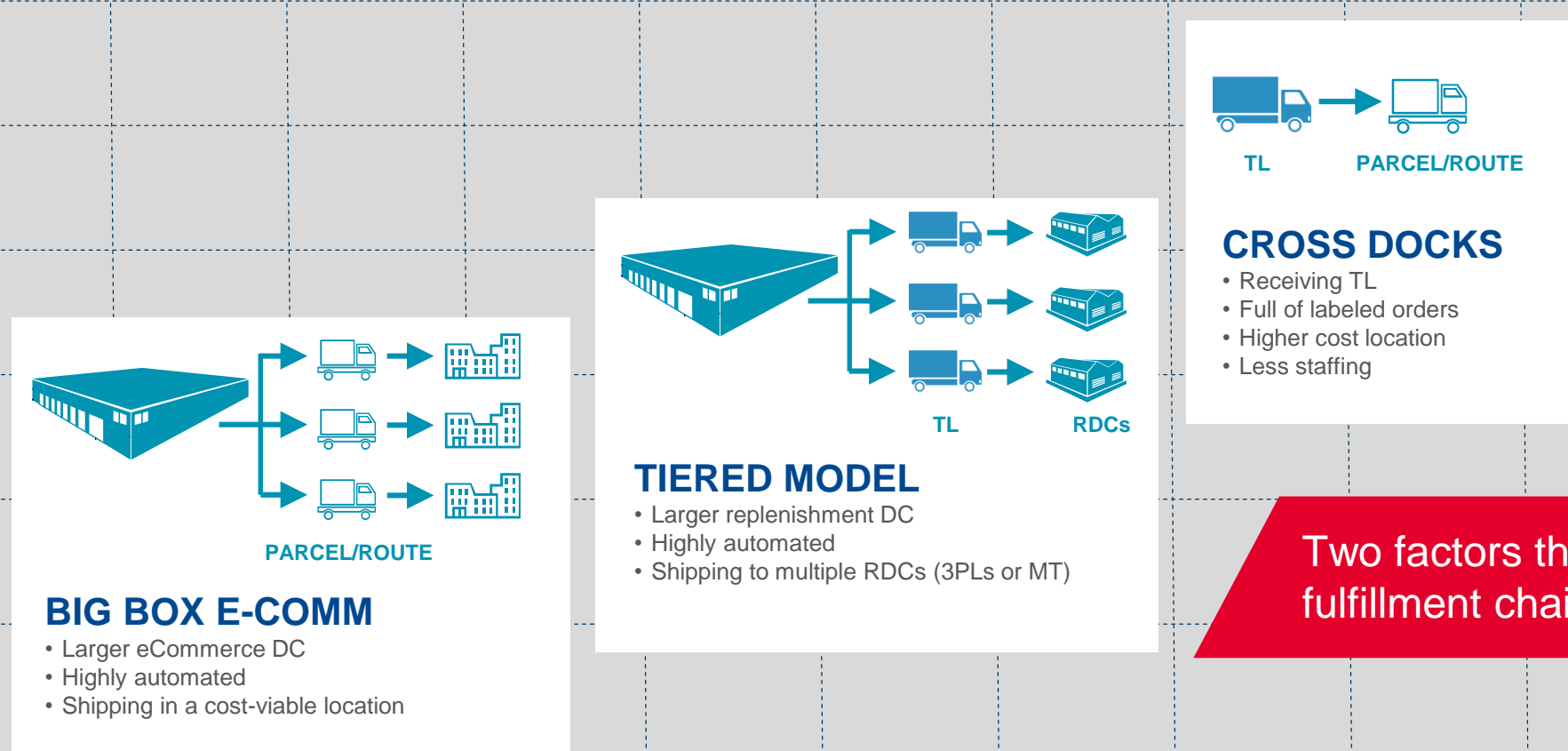




# Four Building Types in Two Dimensions

Service Level & Urbanization: Do These Continue?

**SERVICE LEVEL  
MIGRATION**



## DEPOTS

- Service level depot
- Urban core, 10-40K SF
- Some stocking & picking, less automated
- Some A+ inventory
- Possibly a 3PL or multi-tenancy



## CROSS DOCKS

- Receiving TL
- Full of labeled orders
- Higher cost location
- Less staffing

Two factors that will shape successful fulfillment chains over the next five years

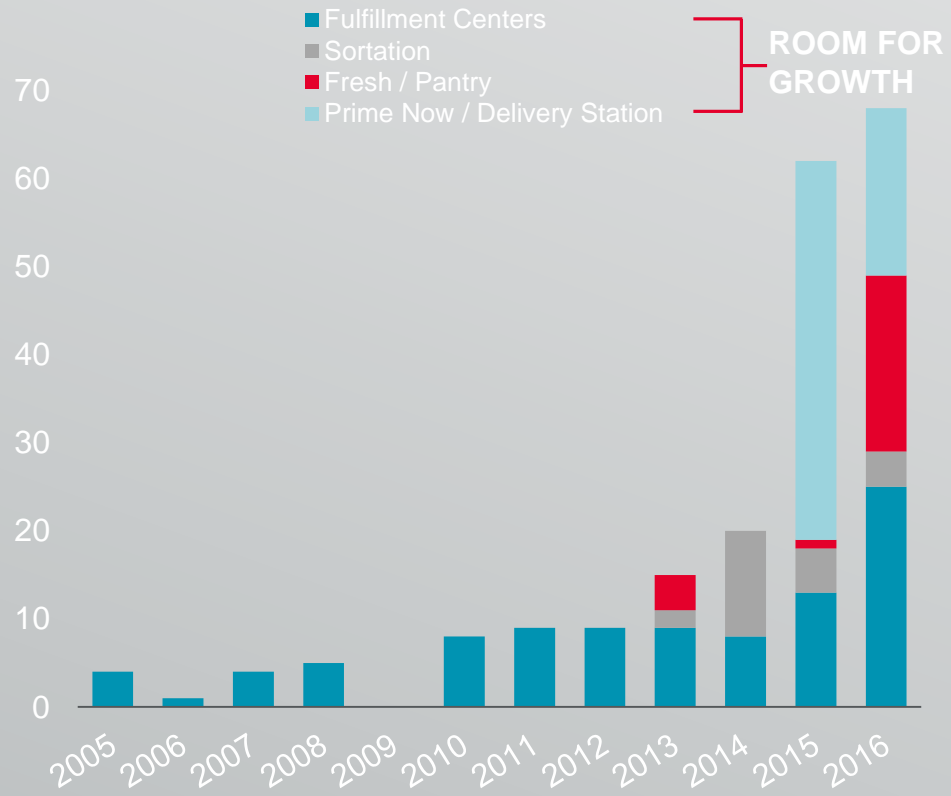
**URBANIZATION  
IMPACT**



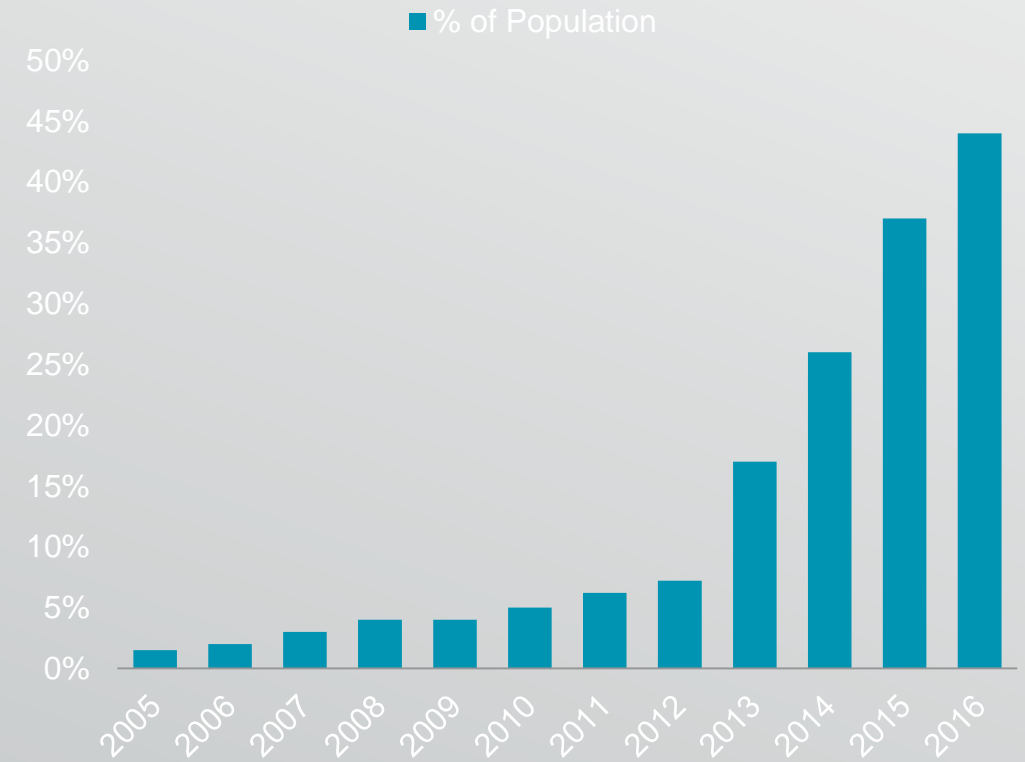
# Getting Closer to the Consumer

## The Two Types of Online Retailers: Amazon and Everyone Trying to Catch Amazon

Follow the Leader  
Amazon, # of Transactions



Closing in on the Population  
% of Population w/in 20 miles on an Amazon Fulfillment Node





## Top of the Wish List – Ecom Users

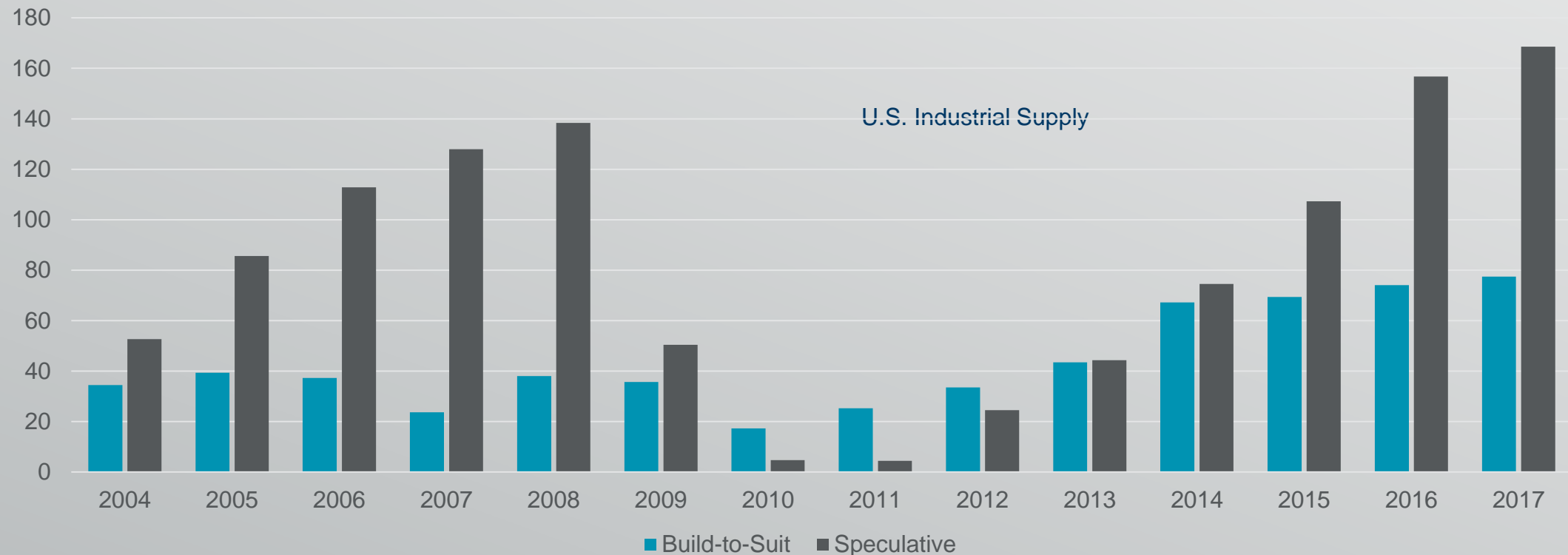
- Proximity to Population
- Uninterruptable Logistics
- Affordable Labor
- Warehouse Design Efficiency
- Perfectly Accessible Site



# Build to Suit Considerations

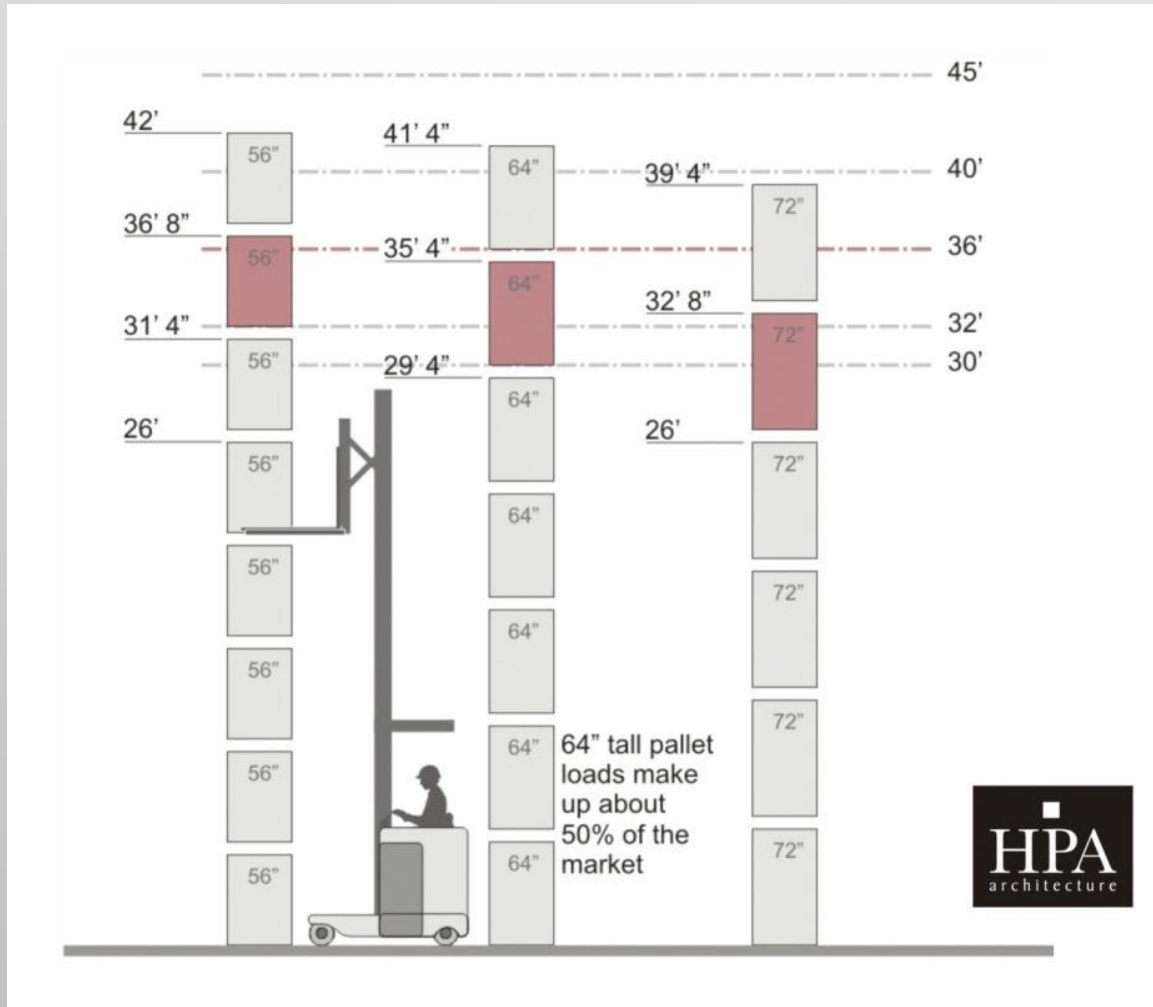
- REQUIRED FOR SPECIALIZED FUNCTIONALITY
- OWN EXPENSIVE ASSETS UNLIKELY TO DEPRECIATE
- NEED IT NOW !!
- LIQUIDITY (NOT) POST-RECESSION
- DEVELOPERS SPECIALIZE, SO GO DIRECT

**U.S. Industrial  
Construction  
Activity BTS vs. Spec**





# Right Clear Height?



## Trends:

- Occupiers (investors?) seeking buildings with higher clear height
- More e-commerce mezzanines and robotics
- And 40' ?

## Drivers:

- Raising from 32' to 36' can create 20% more pallet positions
- Land cost drives vertical
- Lower operating costs

## Constraints:

- Fire suppression system and exiting repercussions
- Additional construction costs and higher up front material handling equipment costs
- Height is only part of the equation

# Big Money

## E-Commerce

(Midwest – Non Chicago Pricing)

		\$/sf
<b>Land:</b>	\$4,000,000	\$4
<b>Soft Costs:</b>	\$5,000,000	\$5
<b>Hard Costs:</b>	\$61,000,000	\$61
<b>Total Project :</b>	\$70,000,000	\$70

### Hard Costs (Adds):

Interior Mezzanine:	\$4,850,000
Mechanical Smoke Exhaust:	\$4,300,000
Power Distribution:	\$5,100,000
Sprinkler Enhancements:	\$2,500,000
Clear Height:	\$1,000,000
Expanded Site Work:	\$1,875,000
Office Improvements:	\$4,600,000
Security:	\$1,000,000
<u>HVAC:</u>	<u>\$2,800,000</u>
<b>Total Hard Costs:</b>	<b>\$28,025,000</b>



## Traditional DC

(Midwest – Non Chicago Pricing)

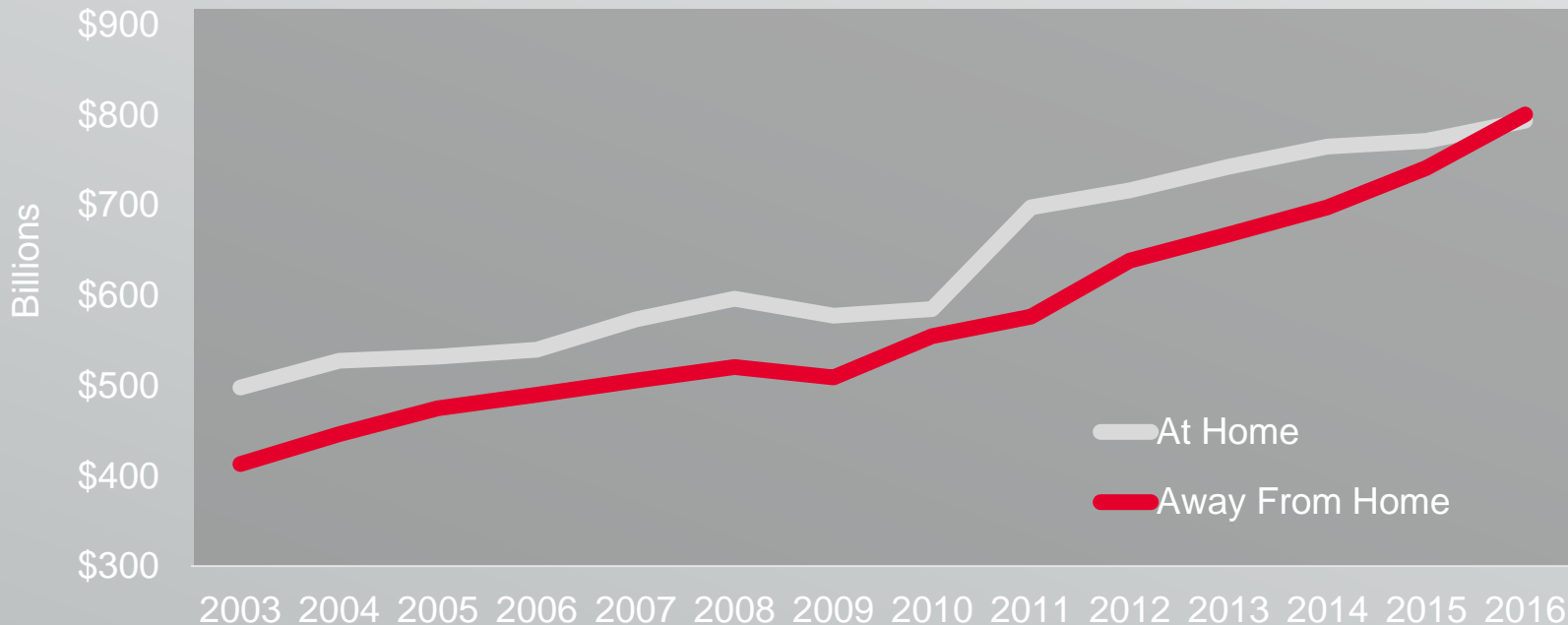
	\$/sf	
<b>Land:</b>	\$4	\$4,000,000
	\$4	
<b>Soft Costs:</b>	\$4	\$4,000,000
	\$26	
<b>Hard Costs:</b>	\$26	\$26,000,000
<b>Total Project :</b>	\$34	\$34,000,000

# What's Driving the Market?

Population, Consumption, Logistics Trends, eCommerce

## Food is a Major Growth Driver *Everywhere*

U.S. Food Expenditures



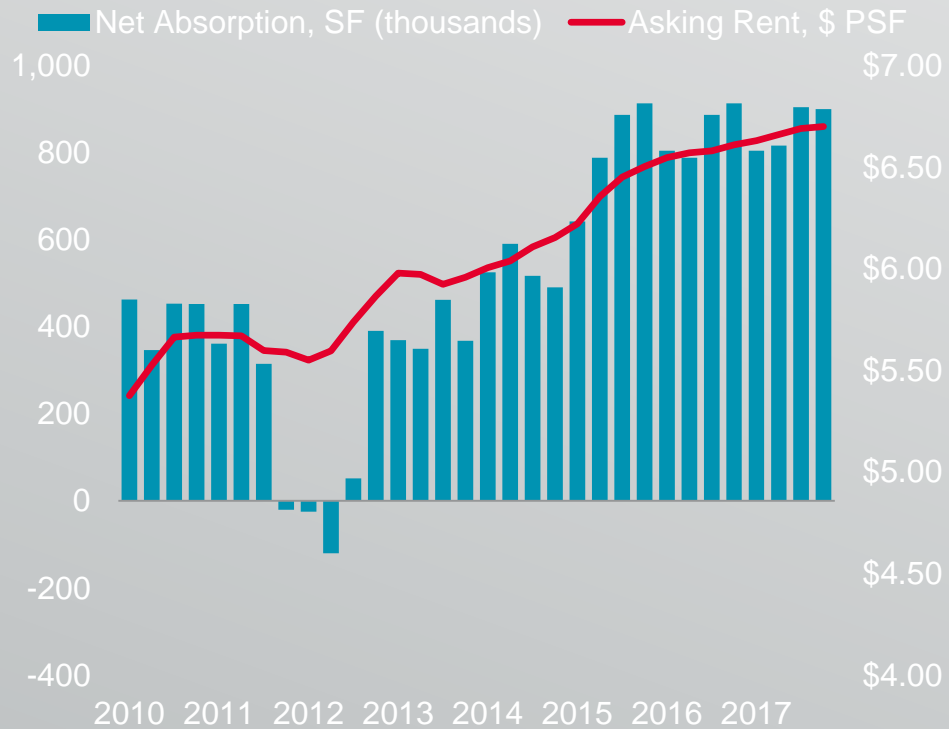
**People are eating out more now than ever before.**

**9 in 10** consumers say dining out with family and friends is a better use of their leisure time than cooking and cleaning up.

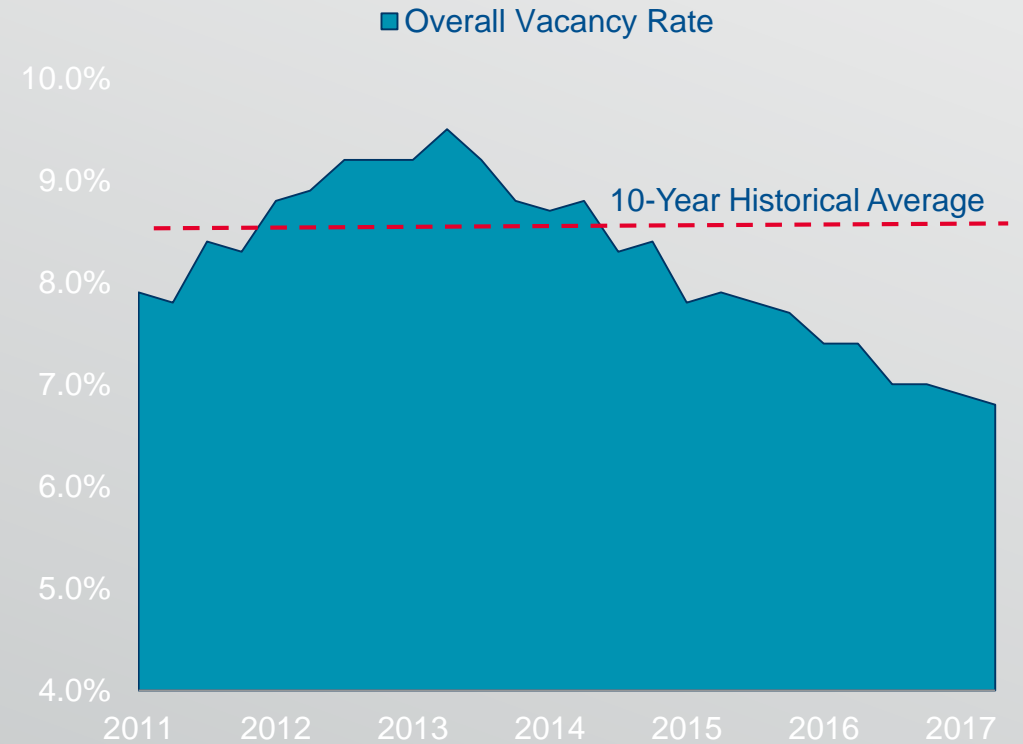
# U.S. Cold Storage Snapshot

Solid Demand Fundamentals and Limited Supply Make Cold Storage a Hot Asset Class

## U.S. Absorption and Rents are Climbing 4Q Trailing Average



## U.S. Vacancy Remains Low Vacancy Rate, %





# Current Trends

## How is the Supply Chain Impacted?

TREND



Healthy eating and fresh food frenzy



Need for more cooler space, more frequent deliveries, higher risk

IMPACT



Physical grocers expanding in-store ready-to-eat meals



Increase menu choices requiring supply & distribution considerations



Rising labor costs and lack of labor force



Need for in-depth, reliable site selection process

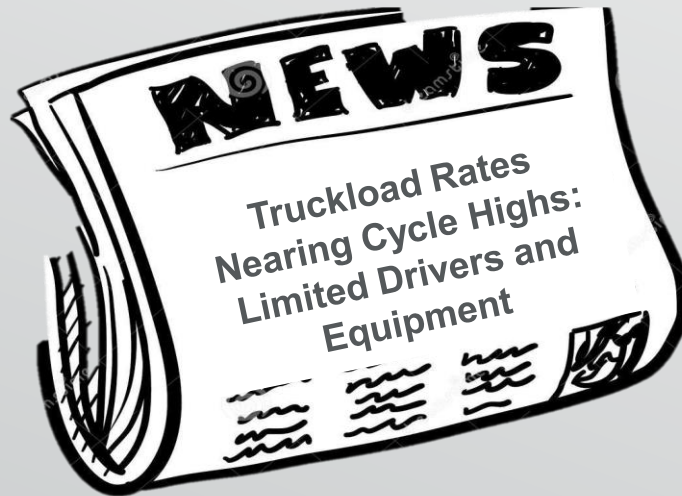


3PLs have more hiring flexibility and access to labor



Need for discussion on pros & cons of company-owned vs. 3PL drivers/trucking companies

# What Else is in the News?



# Why Site Selection is Challenging

- LONG-TERM ALLOCATION OF PROPERTY, CAPITAL AND PEOPLE
- COMPANY-WIDE IMPACTS
- OCCURS INFREQUENTLY & COMPANIES ARE LEAN
- PRESENTS RISKS AND TECHNICAL CHALLENGES
- REQUIRES CONSENSUS-BASED DECISION-MAKING
- COMPANIES RARELY BUDGET SUFFICIENT TIME

Site selection is a **high-profile, high-risk event** that companies rarely face.

# Tremendous Opportunity Lies Amongst the Risks

OPERATING CONDITIONS VARY GREATLY BY LOCATION. COSTS MAY VARY BY 100% OR MORE.

<b>Labor</b>	<b>Costs, Availability, Skillsets</b>
<b>Transportation</b>	<b>Inbound and Outbound Freight Costs, Infrastructure and Proximity (to Suppliers, Customers, etc.)</b>
<b>Real Estate</b>	<b>Rent and/or Purchase Price, Availability and Suitability</b>
<b>Utilities</b>	<b>Rates, Capacity and Availability</b>
<b>Government Support</b>	<b>Taxes, Incentives, Permitting and Regulations</b>

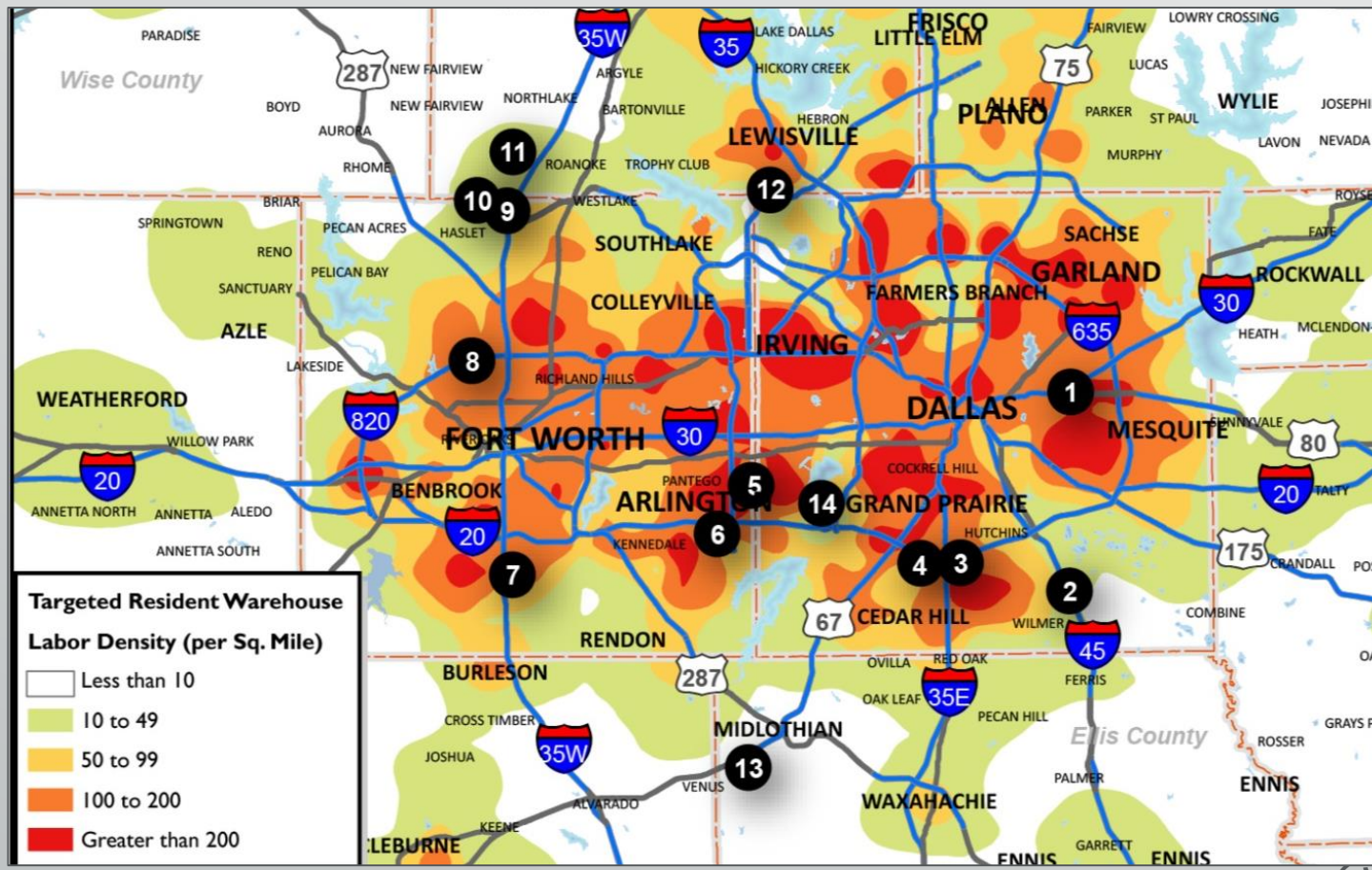


**A singular opportunity to unlock value.**



# Workforce Considerations Should be Top-of-Mind

Labor-market dynamics can vary greatly between candidate sites/cities. Consider them before committing.



# Challenges in Today's Real Estate Markets

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- SUITABLE SPACE IS SCARCE, PARTICULARLY MANUFACTURING
- OCCUPANCY AND CONSTRUCTION COSTS ARE ON THE RISE
- CONSTRUCTION IS MORE SPECIALIZED, ESPECIALLY IN FULFILLMENT
- REAL ESTATE CONSIDERATIONS PLAY GREATER ROLE IN LOCATION STRATEGY THAN IN PAST

**It is essential to consider real estate market realities at the start of site selection.**

# Common Mistakes and Risks in Facility Location Initiatives

There are many different types of risks, varying by topic and significance. The risks cited below tend to occur more frequently and can have the largest timeline, risk and cost impacts.

## Top Risks in Site Selection

- Failure to consider/weigh appropriate location factors, cost drivers and objectives at project start and early milestones
- Unclear, un-socialized timeline/schedule objectives
- Narrowing the search area too quickly
- Site layout not thoroughly considered and or developed late
- Insufficient technical review of site, infrastructure, labor markets, permitting and other technical matters
- Lack of executive team consensus, resulting in delays, re-work or cancellation

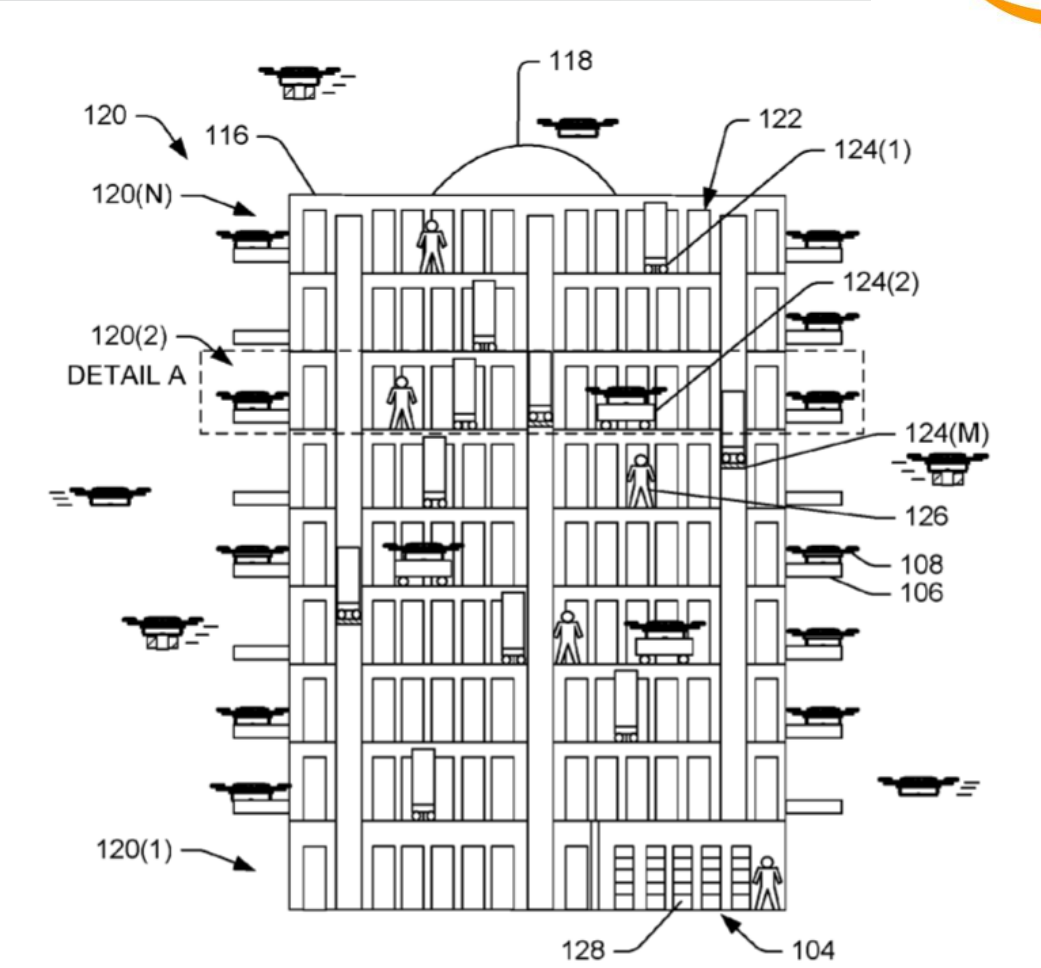
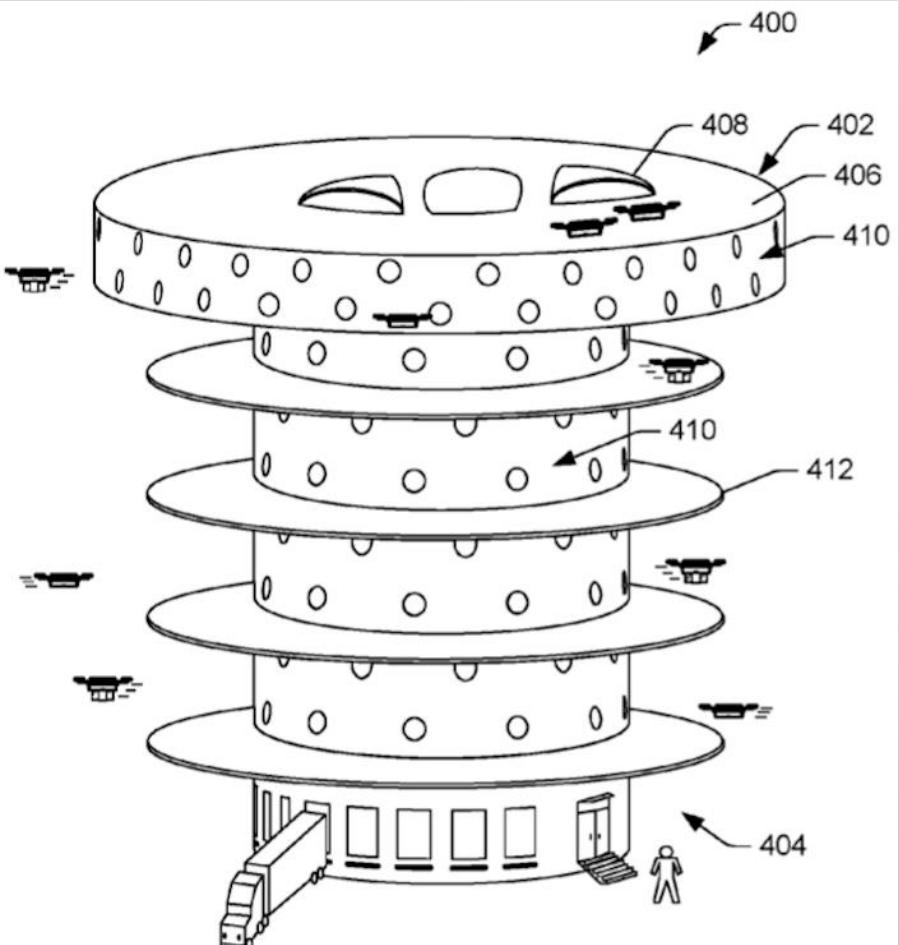
## Actions to Avoid / Mitigate Risks

- Use thorough data-collection templates; require inputs from diverse client functional groups
- Create week-to-week project schedule at start; socialize across client team; review regularly
- Advocate to add states/regions at project start to avoid 'backtracking' and undiscovered options
- Inventory factors/features that must be included in layout; obtain 3<sup>rd</sup>-party expertise as needed
- Retain 3<sup>rd</sup>-party expertise/engineering involvement on critical technical matters and major costs on preferred sites
- Create defensible, clear, fact-based deliverables and recommendations; solicit cross-department review and feedback

# Amazon's Beehive Fulfillment Center: Really?

Where is the Limit?

Now this is urban logistics

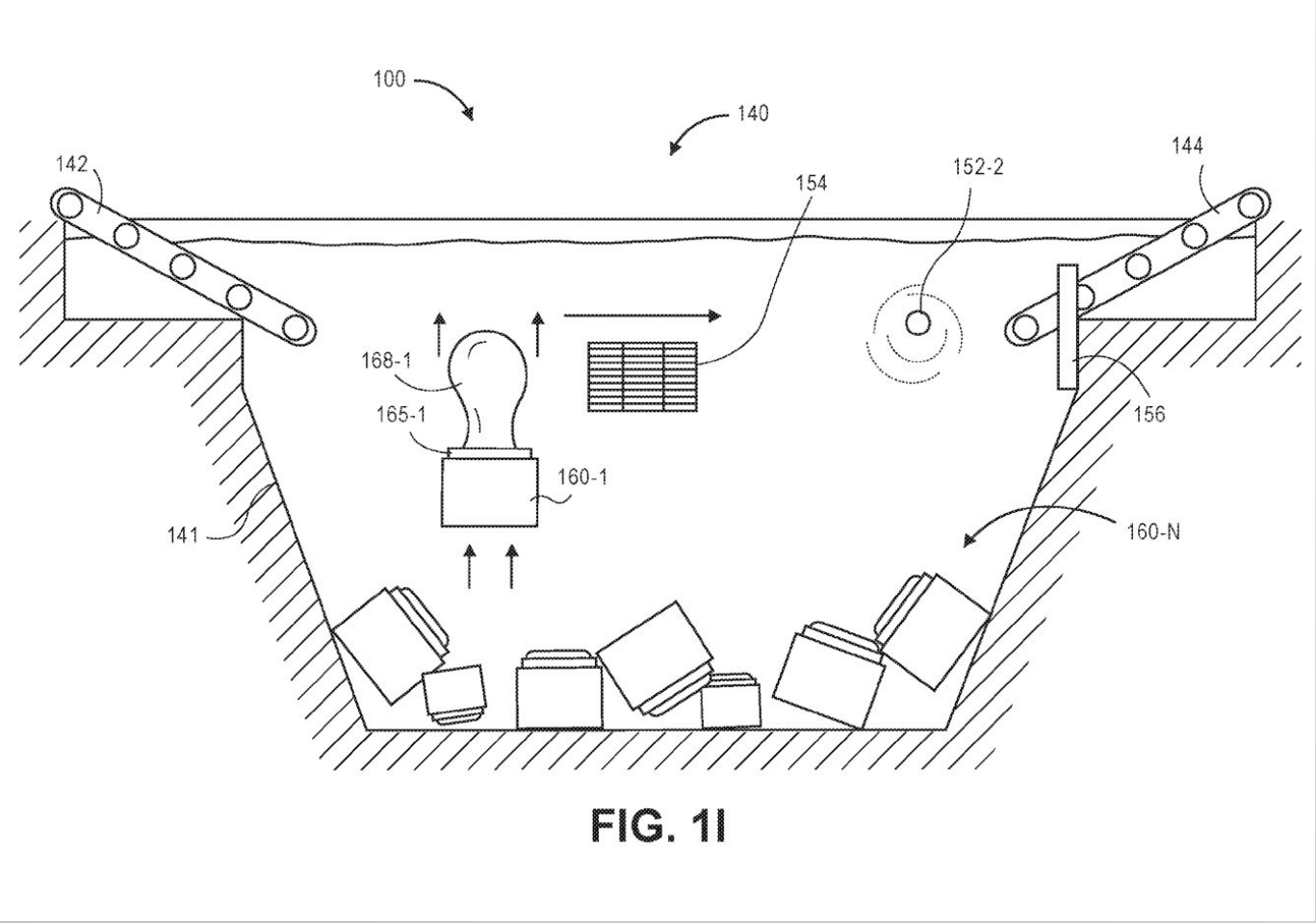




# Jacques Cousteau's Fulfillment Center

Amazon's Underwater Storage and Retrieval

Mermaids Need Not Apply





# Cushman & Wakefield

## Logistics & Industrial Platform

800+

650+ Dedicated Logistics & Industrial Professionals in the U.S., 800+ in the Americas



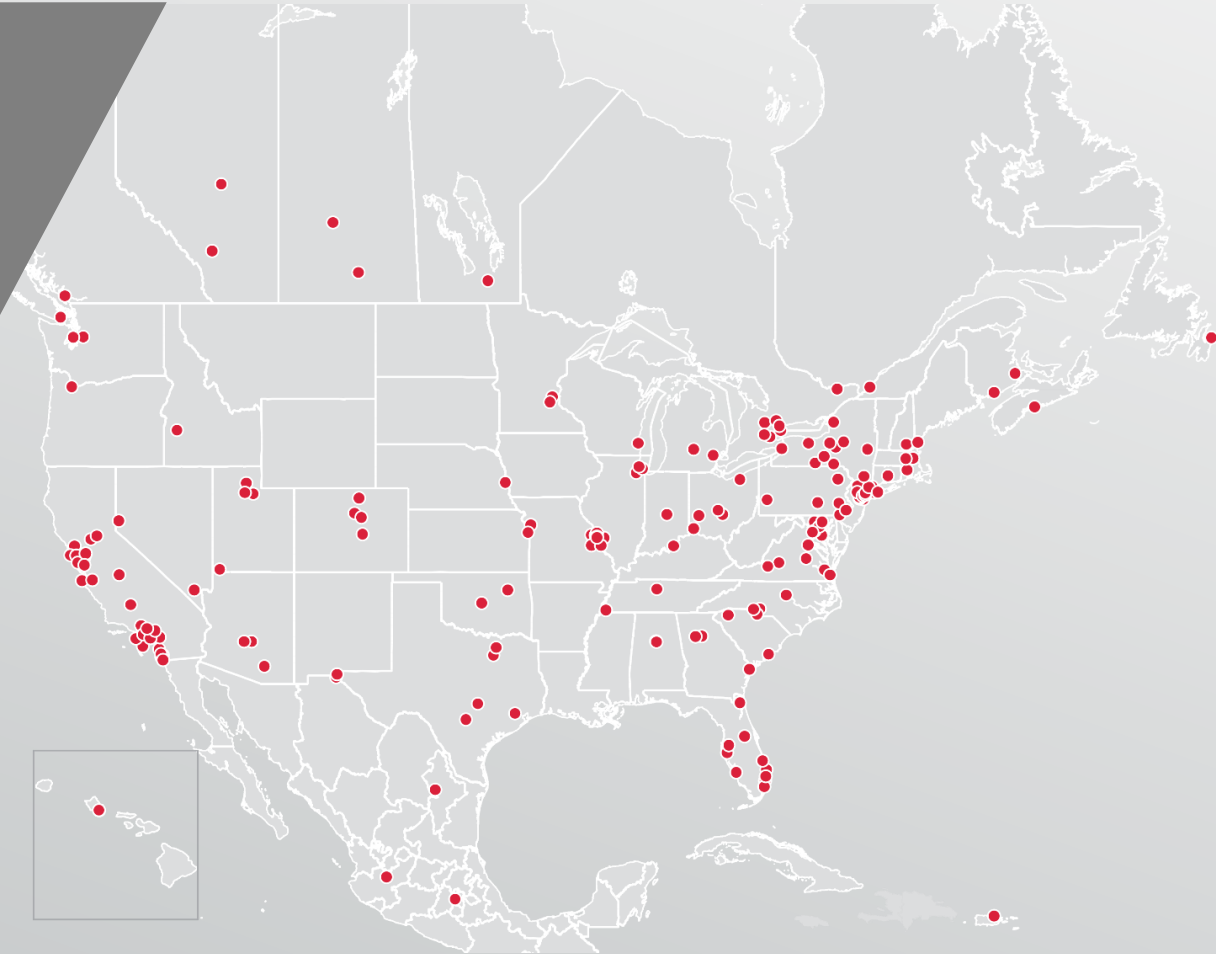
#1

Top Market Share of U.S. Industrial Leasing



250 msf

2017 U.S. Transaction Volume valued at more than \$8 billion



The World's **#1 Industrial Platform**