



# Supply Chain & Logistics *Solutions*

## *The evolving global supply chain*

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Industrial Tenant Representation

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# First look at industrial

United States | Q4 2014



## Exceeding (and nearing) last cycle's high points

### Vacancy dips to a new low

Early numbers have vacancy at 6.9 percent, which is below last cycle's low. Several West Coast and Southwest markets – like Seattle, Oakland, the Inland Empire and Dallas / Fort Worth – have vacancies under 6.0 percent.

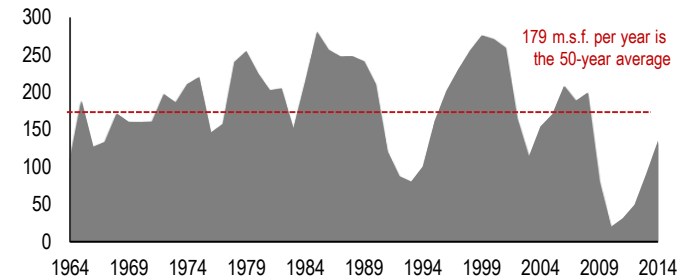
### Rents follow suit

Rent growth has been consistent with vacancy's decline over 19-straight quarters of absorption gains. Rents had 4.0 percent annual growth in 2014, and are just 2.2 percent off from last cycle's 2007-high. More growth is expected in 2015.

### Construction plays catch-up

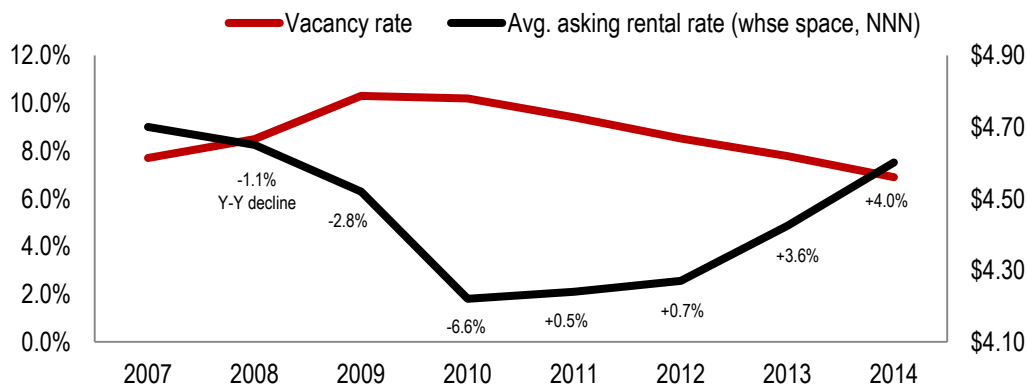
New deliveries totaled 135.0 million square feet in 2014, up 48.7 percent from 2013. They may reach 171.0 million square feet in 2015—still below last cycle's annual average of 184.0 million square feet.

### Construction deliveries are still historically low



Source: JLL Research and PLD

### Rents increase as vacancy declines



Source: JLL Research

## 6.9%

**Vacancy:** The preliminary U.S. rate dropped 30 basis points from three months ago. It was down 100 basis points from 2013.

Source: JLL Research

## +6.5%

**Laden TEUs:** Total imports at the nation's four busiest cargo seaports were up in the first ten months of 2014 compared to the same period last year.

Source: Port Authorities for LA, LB, NY/NJ, Savannah

## +4.1%

**Retail sales:** Sales are projected to have a 4.1% annual increase. Final 2014 numbers may be higher.

Source: National Retail Federation

## 55.5, PMI

**Manufacturing:** December's manufacturing index is the 19<sup>th</sup> consecutive month the sector has expanded.

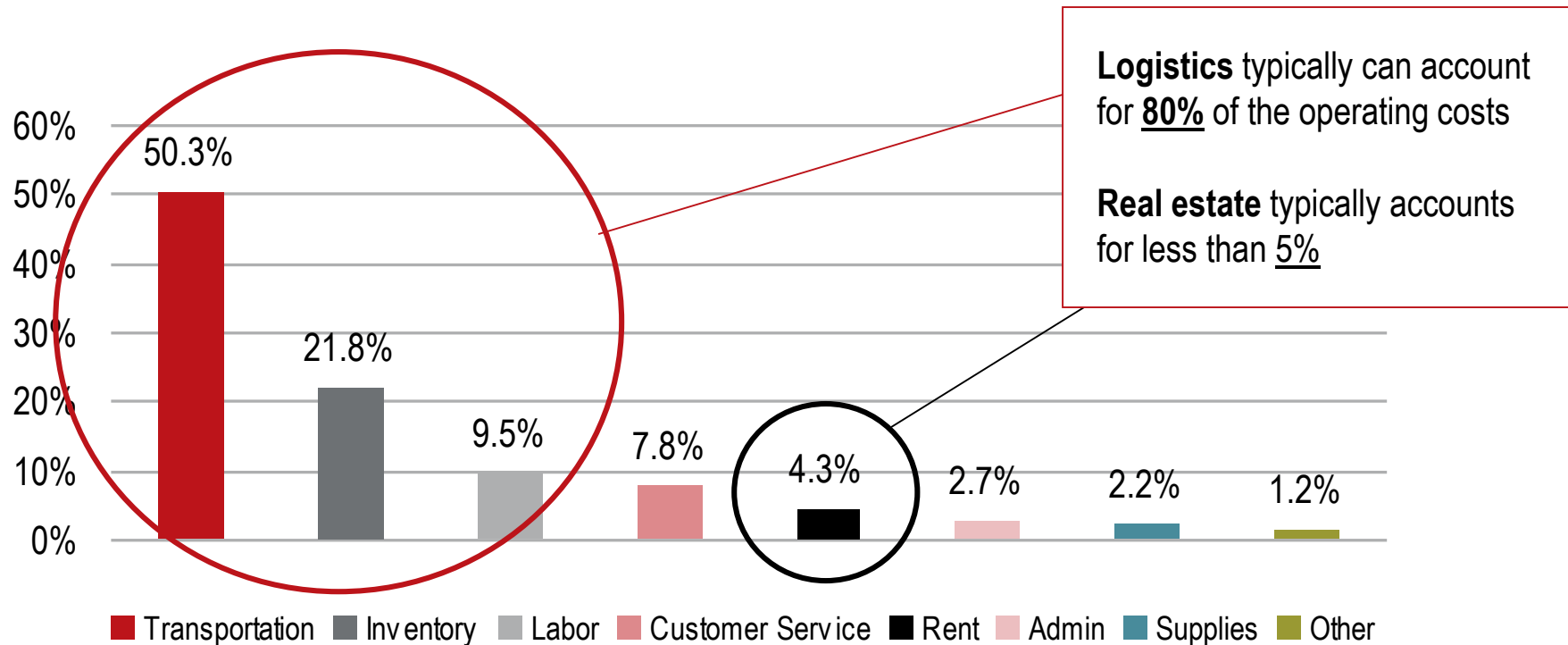
Source: Institute for Supply Management



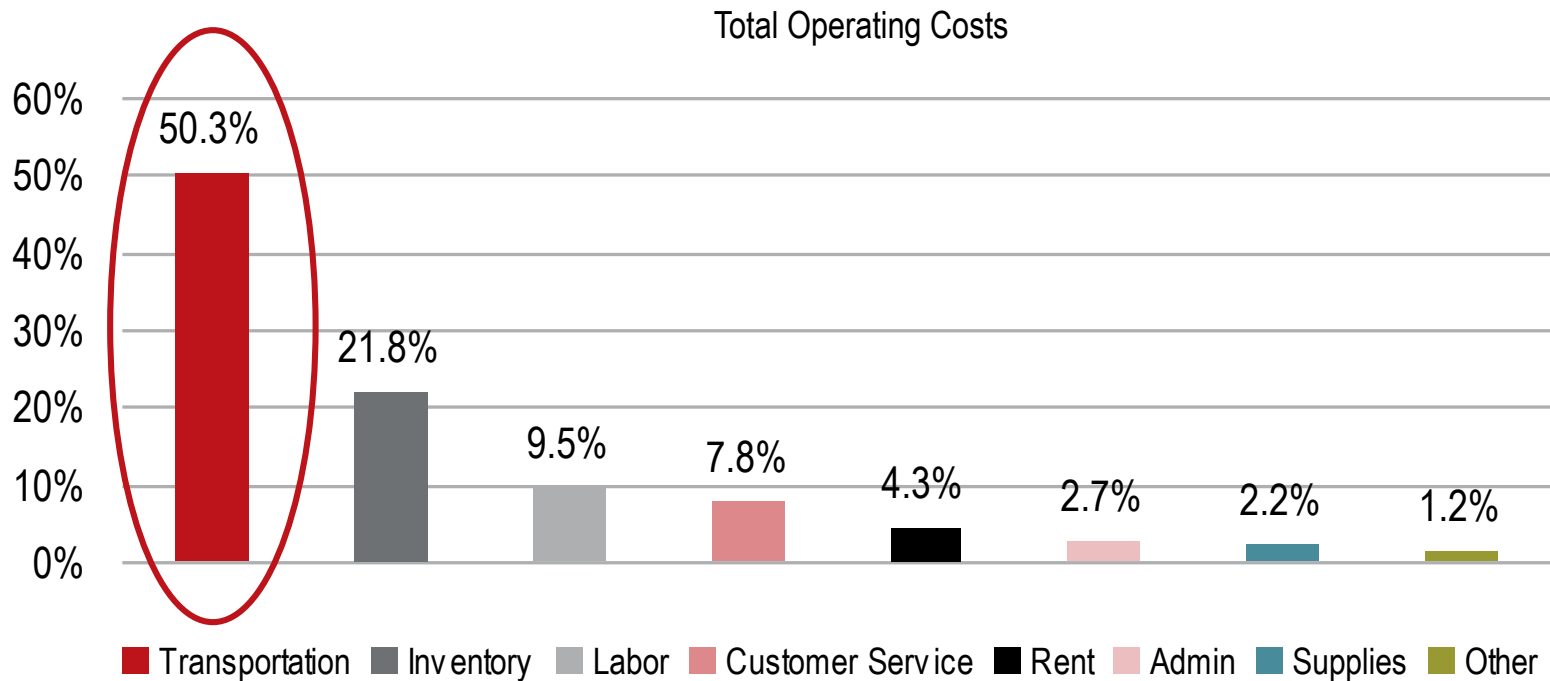
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# More than real estate...

Understanding the *total operating cost* picture is critical



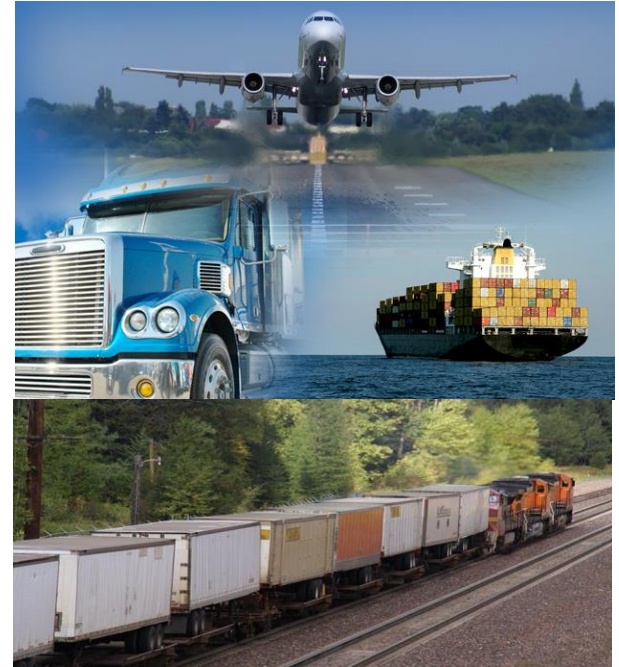
# Transportation is one of the largest cost buckets



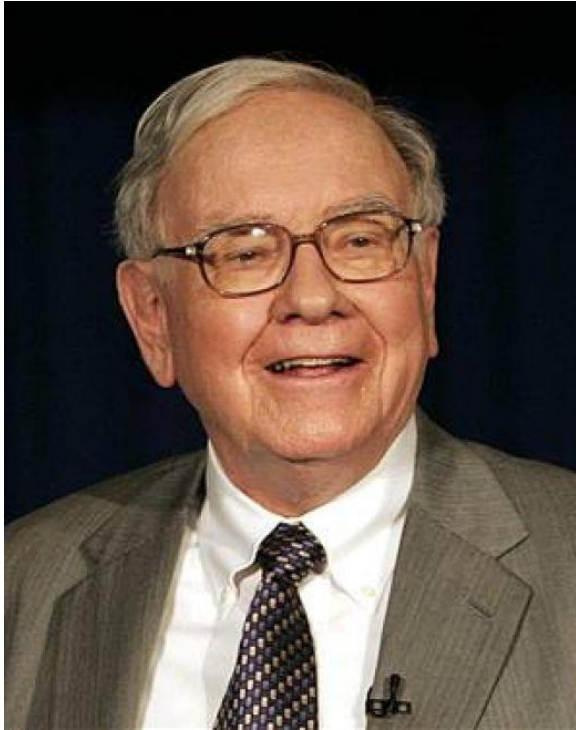
# Transportation “101”

Four primary modes of transportation:

1. **Air** → most costly
2. **Truck** → 80% of what moves
3. **Water** → most economical
4. **Rail** → very few using



# “All aboard!” Big bets going on in rail



# Global supply chain decision factors are evolving

- 1 Freight
- 2 Labor
- 3 Sustainability
- 4 Risk mitigation
- 5 Panama Canal expansion
- 6 Growth in Manufacturing

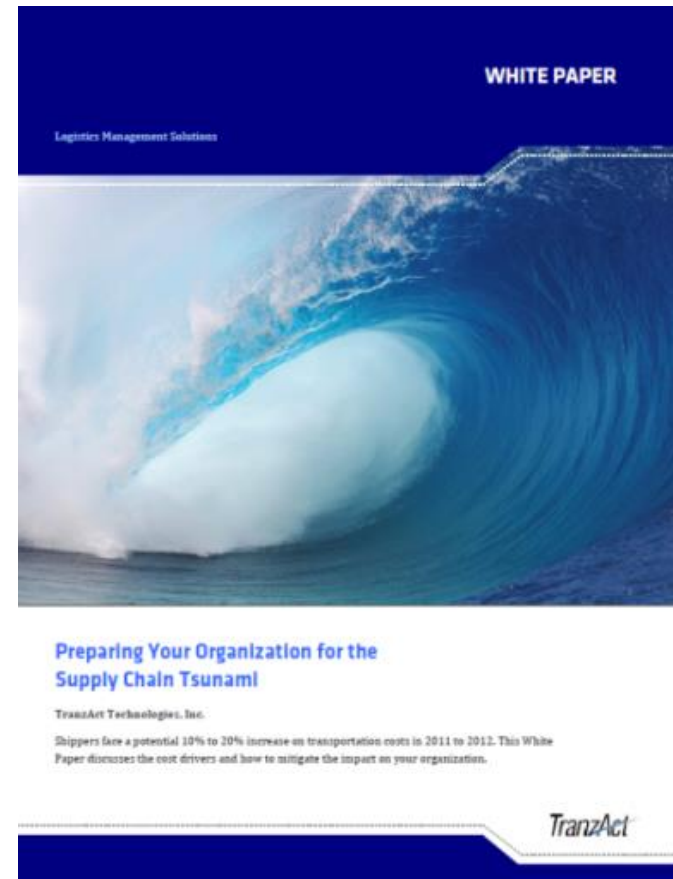


- Freight costs are expected to continue to trend up
- Will drive interest in alternative, lower costs modes of transportation (intermodal, rail, water)

## Case study example: P&G “Project Tina”

Grow use of intermodal 20%+ from 8% to 30% in 5 years.

Objectives: Lower costs, reduce reliance on truck to mitigate risk, and sustainability benefits



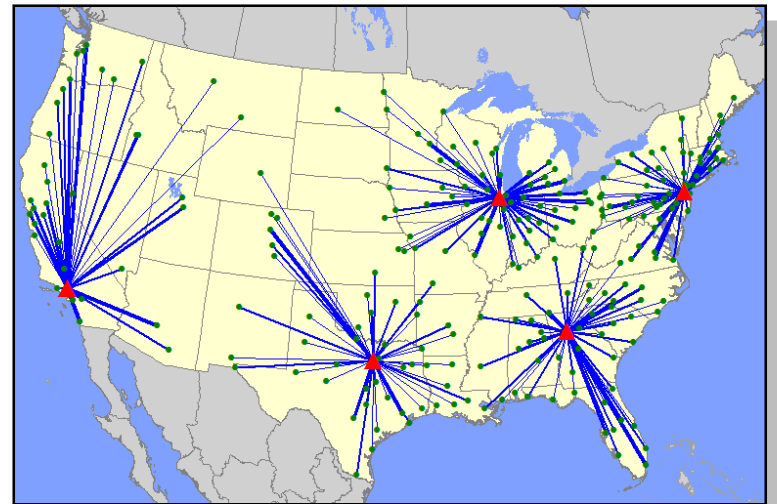
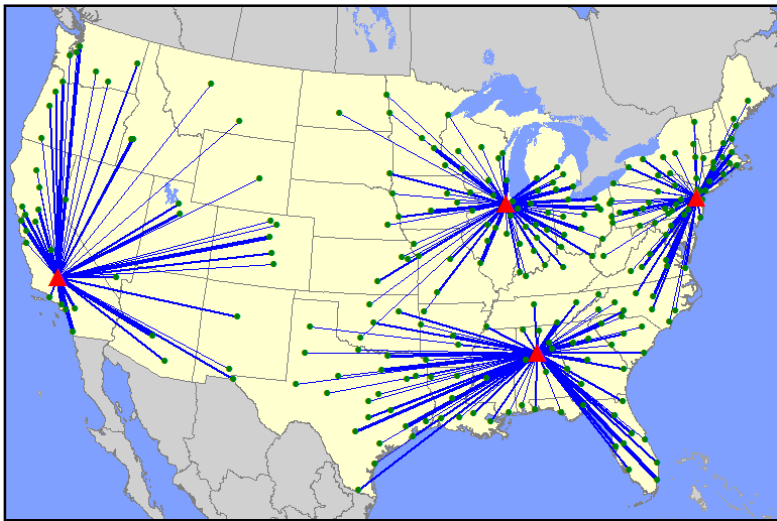


# The higher the freight cost the greater the “distance penalty”

- Increasing freight costs lead companies to distribution networks with “more/smaller” versus “fewer/larger” – want to be closer to your customers

Case study example: With a 25% increase in transportation costs...

**... a 4 DC network became a 5 DC network**



- China still #1 representing one-third of all off-shoring investments; India #2; Eastern Europe #3
- From 2002 to 2006, total manufacturing wages in China rose nearly 70 percent
- Chinese wages rising an average of 15-20% per year due to demand/supply imbalance for skilled labor
- Labor costs are one of the biggest “cost buckets” and an important variable in site selection decisions

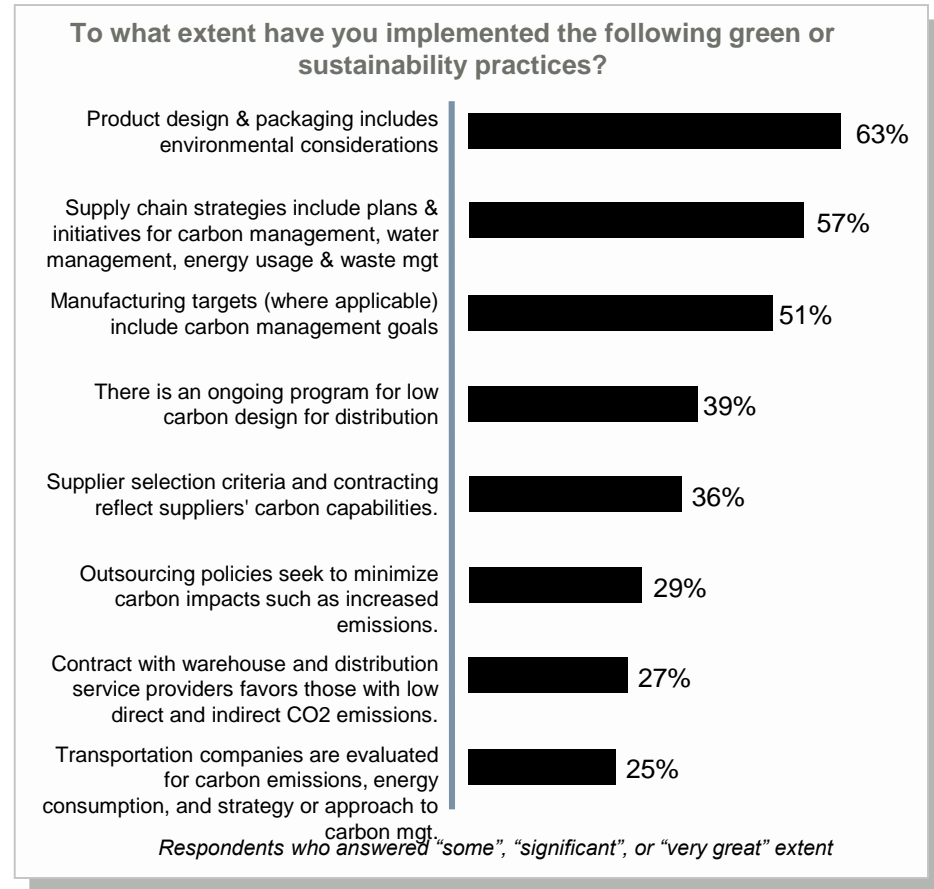


# Sustainability pressures



- Increasingly important, but not yet impacting strategic decisions
- Will drive increased focus on supply chain network redesign (reduce miles)
- Alternative transportation modes become more attractive
- Case study example: Wal-Mart  
A 5% reduction in packaging equates to:
  - 213,000 trucks removed from road
  - 66.7 million gallons of diesel fuel saved
  - \$3.4 billion in savings for entire supply chain

## Examples of where corporations have focused their efforts:



Source: 2009 IBM Global CSCO Study

# Risk mitigation

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- Risk management considerations are becoming increasingly more important
- Companies staying away from putting all their eggs in one basket and diversifying manufacturing and sourcing (regionalization)
- Port diversification strategies more prevalent; access to multi-modal transportation options (e.g., intermodal, rail, barge)
- Disruptions estimated at \$2.3 billion annually
- Two-thirds of supply executives indicated they have experienced a supply chain disruption



# Panama Canal expansion

- Expanded canal = greater economies of scale
  - 50%+ the number of TEU's per ship
  - Fuel savings of 35% per container
- Completion in 2016 (100+ year anniversary)
- Driving interest in U.S. east/gulf coast port locations
  - Closer proximity to U.S. population centers
  - Availability of less expensive real estate
  - Aggressive business and economic incentives
  - Non-union, lower cost labor
- Port diversification strategies more prevalent
- U.S. ports competing to accommodate “post-Panamax” ships
  - Post-Panamax vessels = 16% of worlds container fleet today
  - Expected to grow to 62% by 2030 and dominate in future\*

Existing Panama Canal System

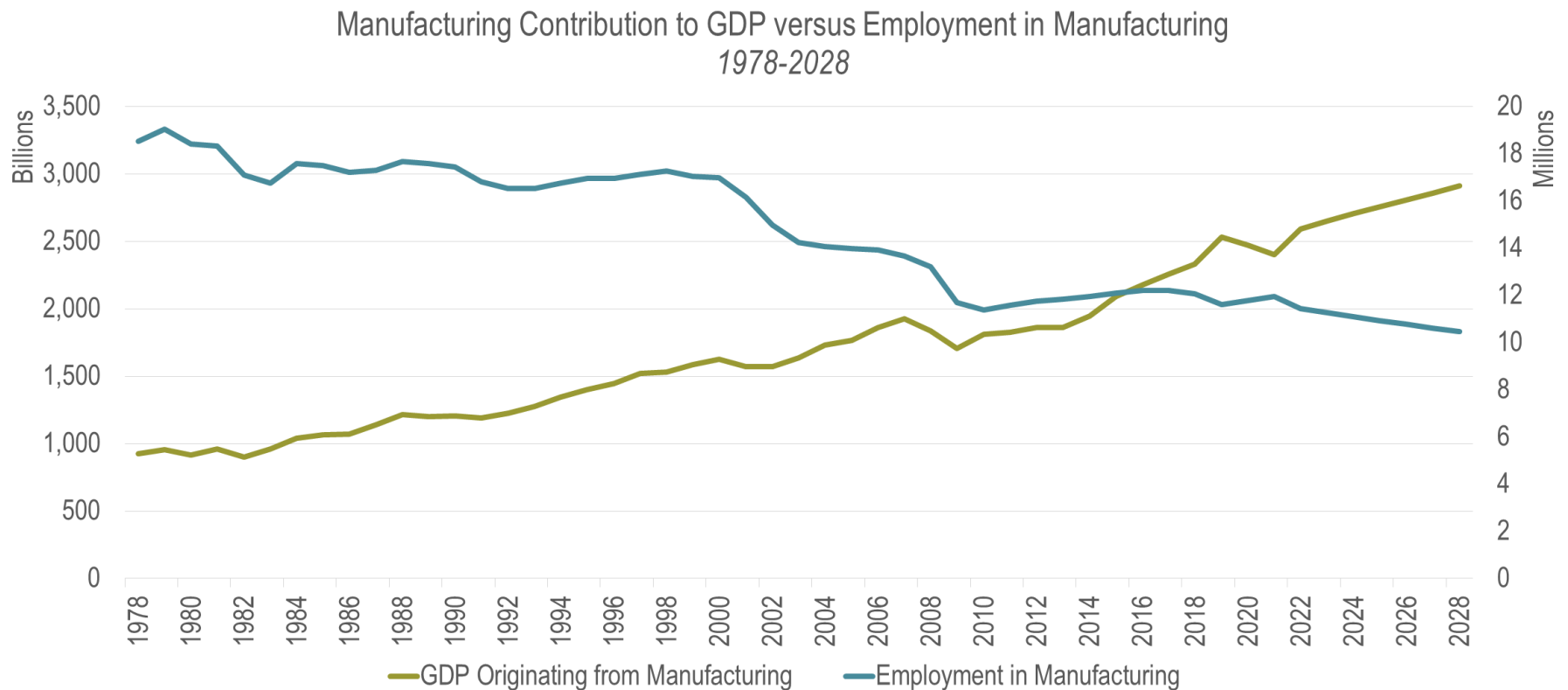


After the Panama Canal Expansion

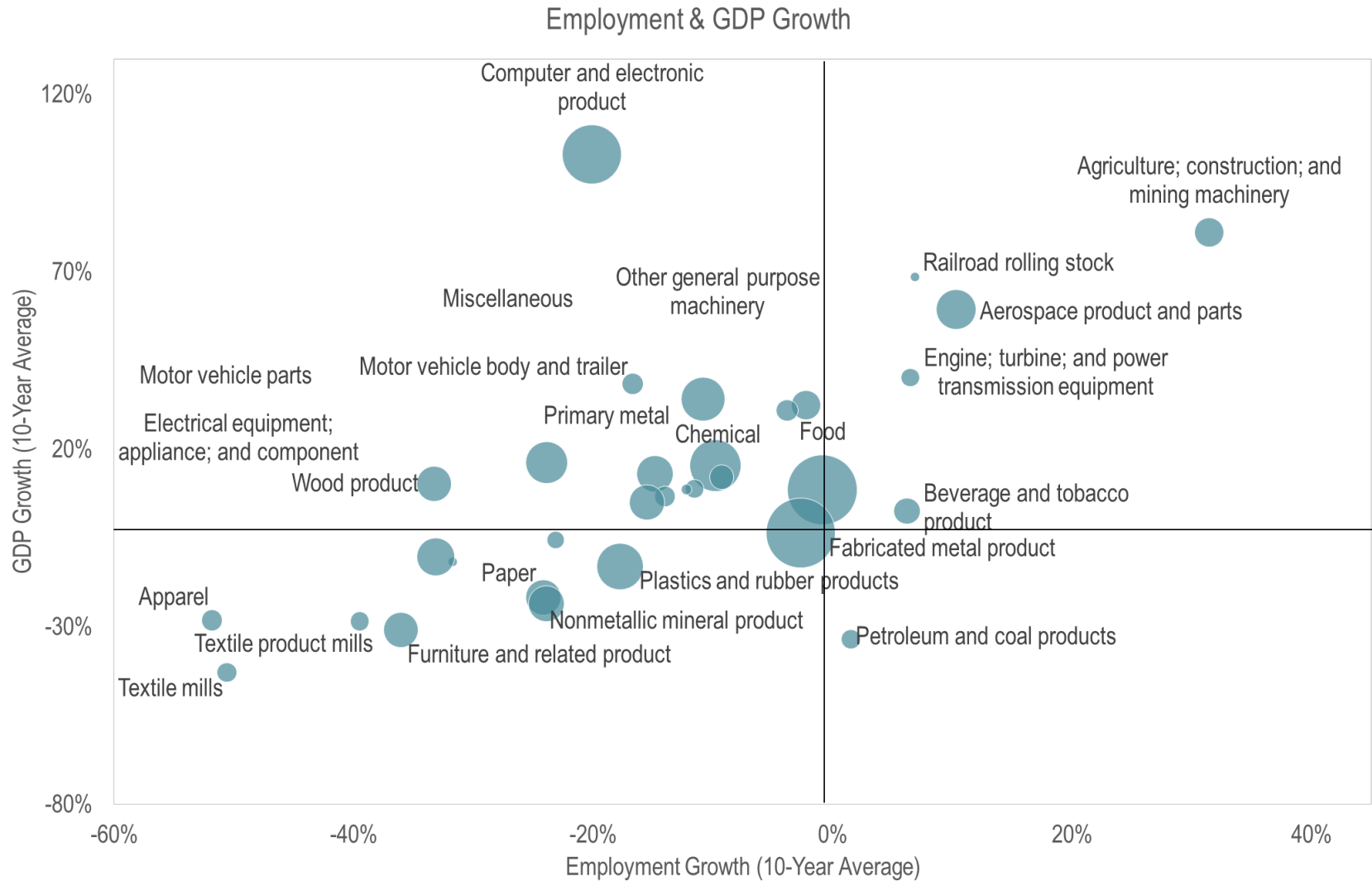


# Manufacturing Sector Growing

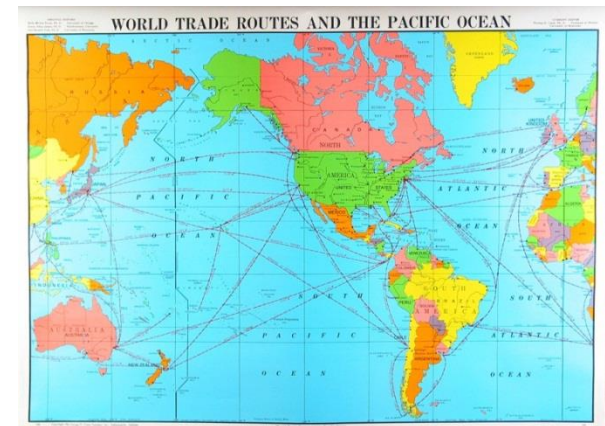
- While employment in manufacturing is in decline, the manufacturing sector is growing



# Manufacturing Employee Growth



# In Summary...



- Supply chain is all about getting the “optimal” balance cost and service objectives
- The industrial footprint (supply chain network) will need to evolve and change as well
- It is more than just real estate... understanding supply chain is critical to developing sound advise and comprehensive solutions



**GRACIAS**      **MERCI**  
**THANKYOU**  
**TAKMANGETAK**  
**GRAZIE**  
**DANKE**

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