



2013 Global Logistics, Trends, and their impact on Industrial RE

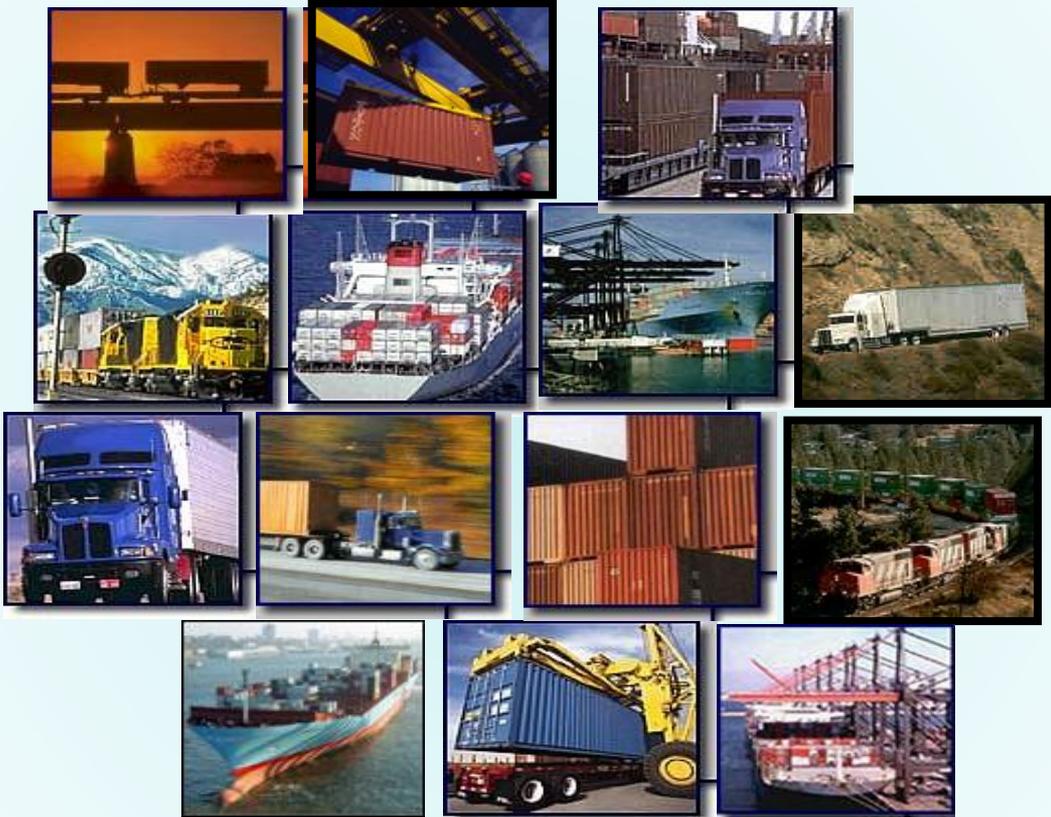
**Prepared By: Curtis D. Spencer, President
IMS Worldwide, Inc.**



Agenda

- How Trade Impacts Real Estate
- Manufacturing Trends
- Logistics and Transportation Trends
- Panama Canal
- Shifts in E-commerce Fulfillment Centers
- Impact on Industrial Real Estate

How Trade Affects Real Estate



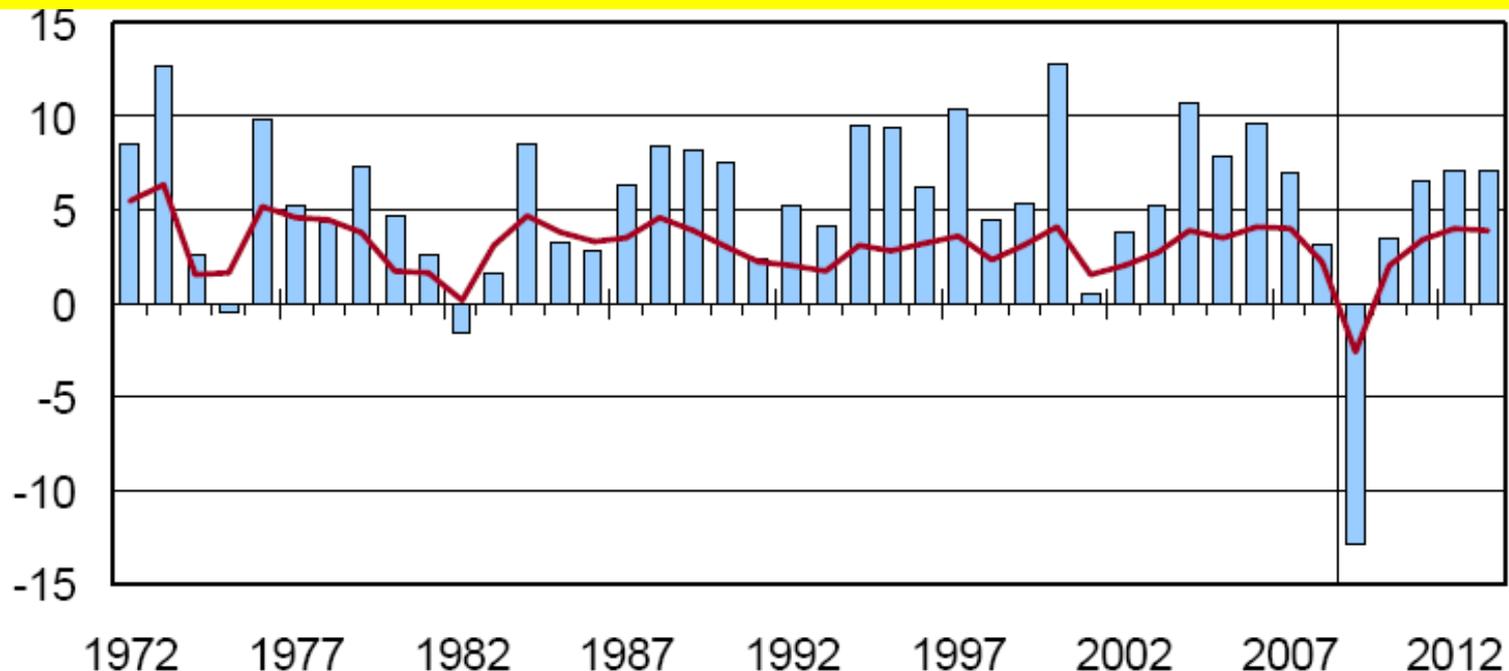
Trade Impacts Real Estate

- Shifts in all industry levels can directly impact the size, shape, type, locations, infrastructure and demand levels for real estate
- Manufacturing—Shift of building type: From smoke stack to high-tech and from off-shore, to near-shore
- “Retail” now involves Industrial buildings! (E-commerce fulfillment centers, traditional Distribution Centers (DCs), etc.) Transportation (new routes, infrastructure, trends)

World Trade Outlook: Export / Import Trade Recovers in 2010 from Dramatic Decline in 2009

SLIDE FROM 2005, SHOWING THE CONNECTION BETWEEN GDP AND TRADE

Notice 2x to 3x Trade Volumes to GDP relationship exists “+ or -”

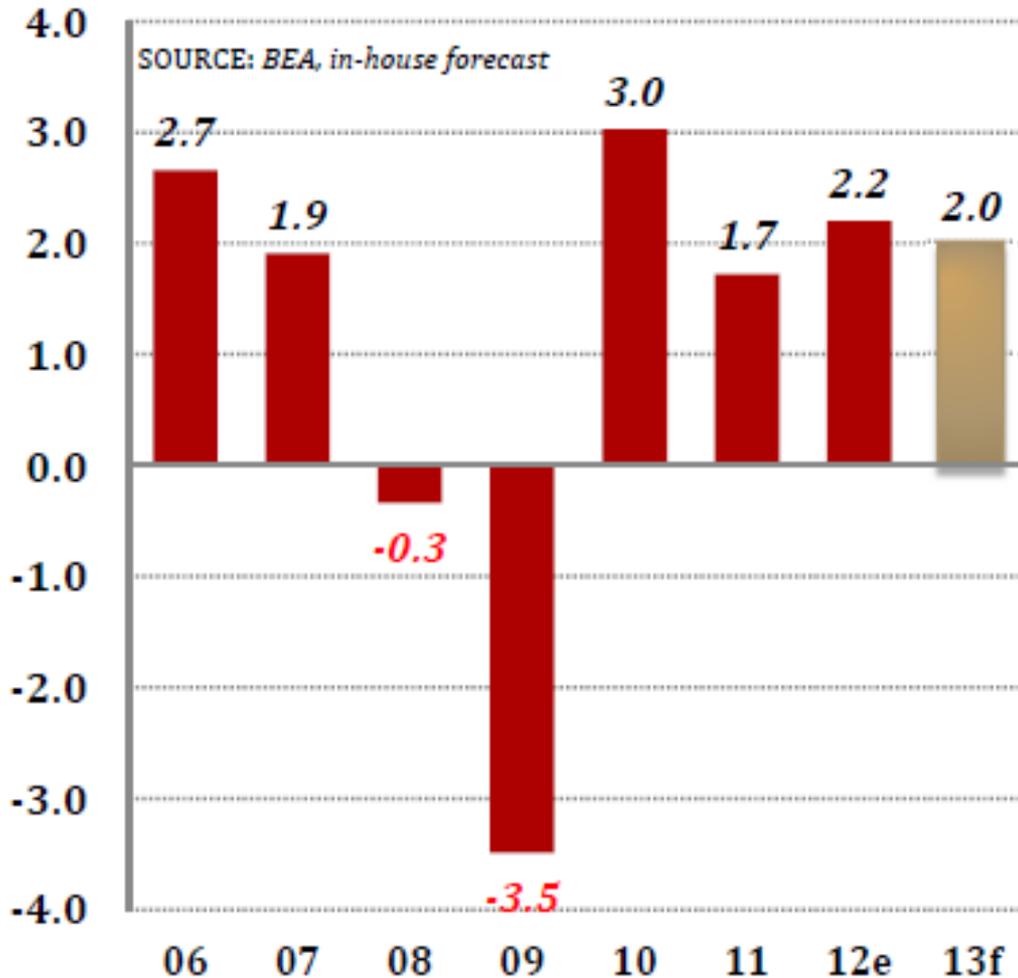


Real Exports — Real GDP

Real Exports to U.S. in TEUs

U.S. Real GDP

Annual Percent Change



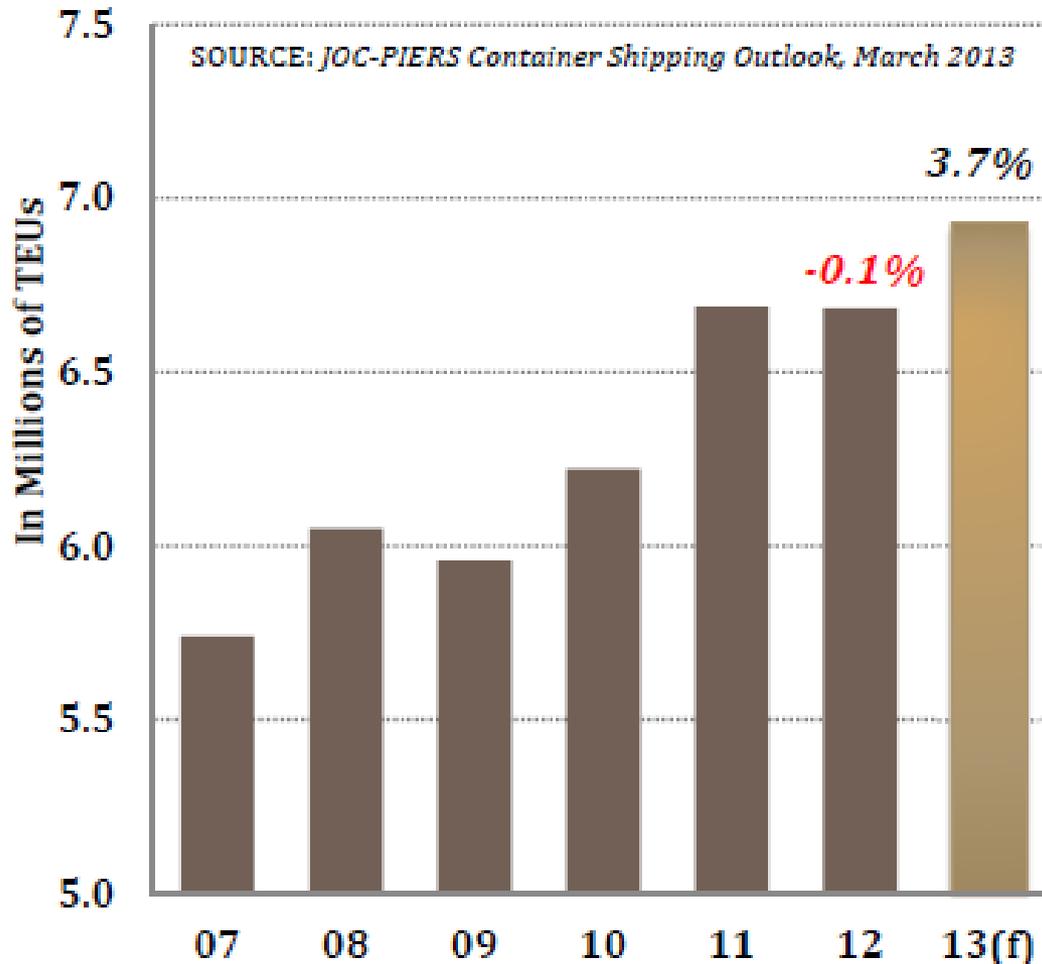
U.S. ECONOMY ON MODEST GROWTH; HIGH UNCERTAINTY STILL REMAINS

U.S. economy to grow 2.0% in 2013 based on following assumptions:

- Sequestration diminished; debt ceiling increased
- SS payroll taxes returned to 6.2% up from 4.2%. 163 million workers affected
- Jobs increasing at minimum pace
- Housing market on gradual recovery
- Exports growth on check by weak external demand

Westbound Pacific Trade Forecast, 2013

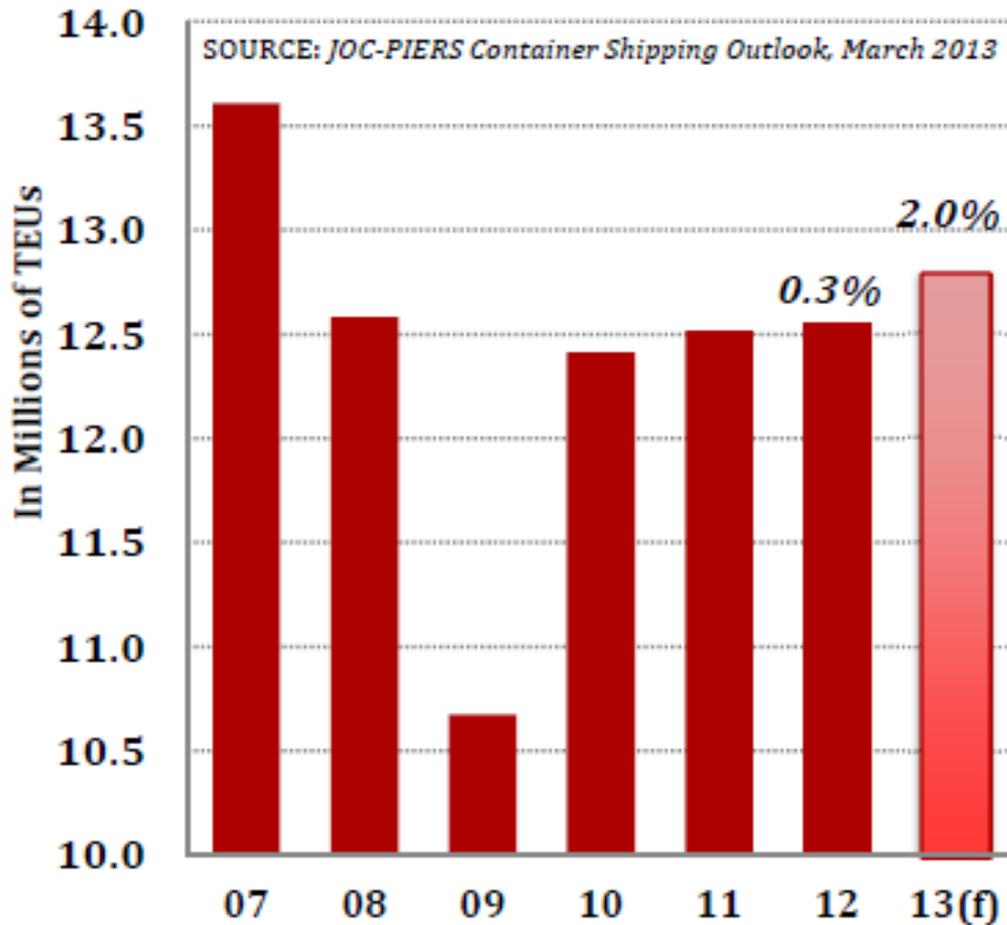
SOURCE: JOC-PIERS Container Shipping Outlook, March 2013



WESTBOUND TRADE GRADUALLY PICKING UP THE PACE

- U.S. exports to Asia to grow 3.7% in 2013, totaling 6.9 million TEUs – a new peak
- Asia's trade inextricably linked to U.S. and Europe's fortunes
- Competitive U.S. dollar

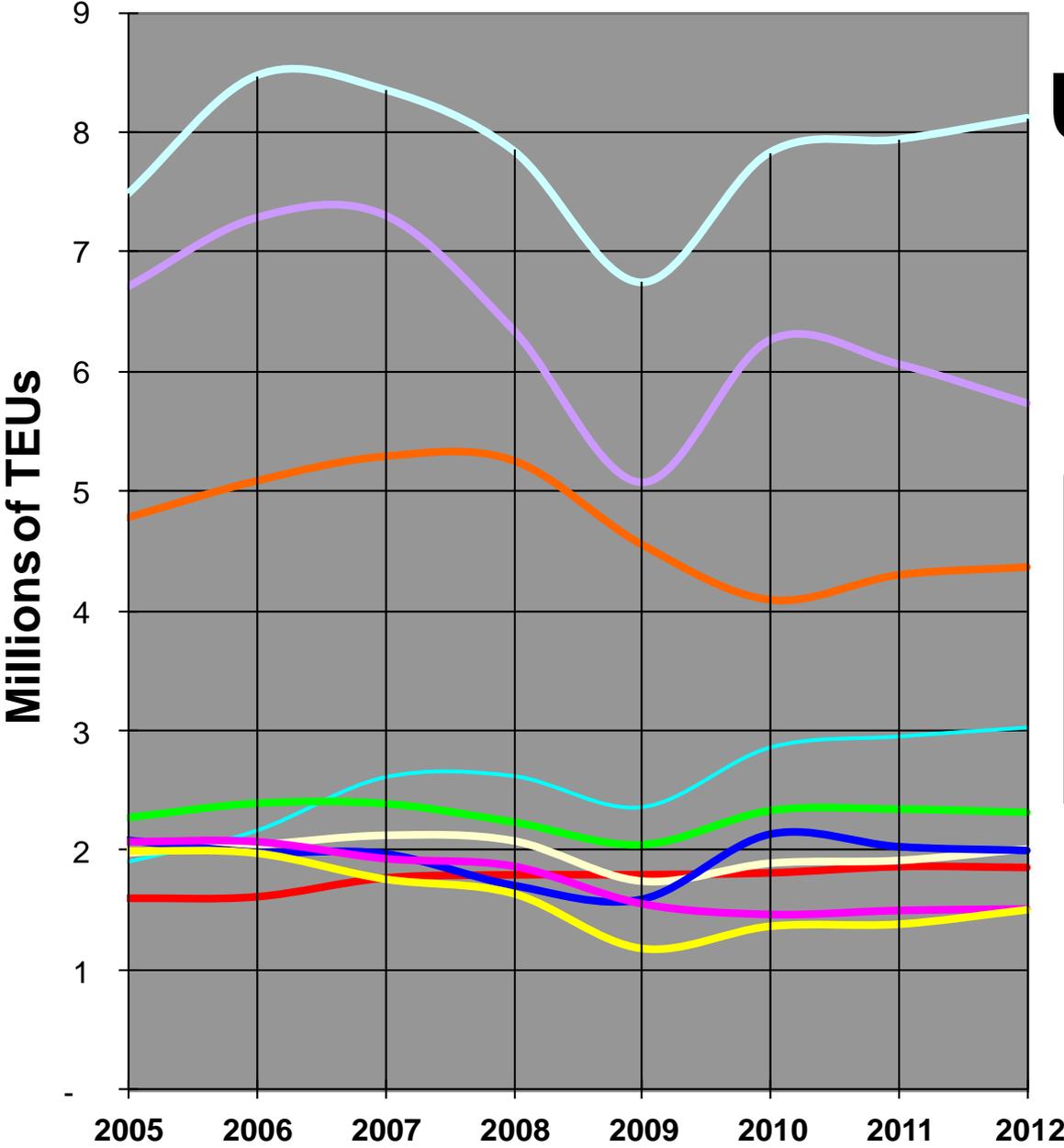
Eastbound Pacific Trade Forecast, 2013



MODEST GROWTH ON THE EASTBOUND TRADE

- U.S. imports from Asia to grow 2.0% in 2013, totaling 12.8 million TEUs – its highest level since 2008
- Post-Christmas re-stocking uneventful as inventories remain above average
- Consumer demand weighed down by elimination of payroll tax reduction
- Housing and auto industries recovering on low rates

U.S. Key Port Growth 2005 - 2012



*** 2012 TEUs annualized based on actual current TEU volumes**

Transportation Trends



Panama Canal

- Canal operating at capacity today
- Limited ship-sizes that can operate, 110 feet wide max, going to 185 ft wide!
- Impact on USEC and Gulf Ports
- Completion date; Dec 2014, start up Q1 2015
- Main “shift” will not be in West Coast, vs. East Coast, Asia-traffic market share, but in 1 ship carrying 12,000 TEUs vs. 3 ships carrying 3500 TEUs each!

THE PROBLEM!



THE FIX – up to 12,000 TEUs



GAME CHANGER POTENTIAL

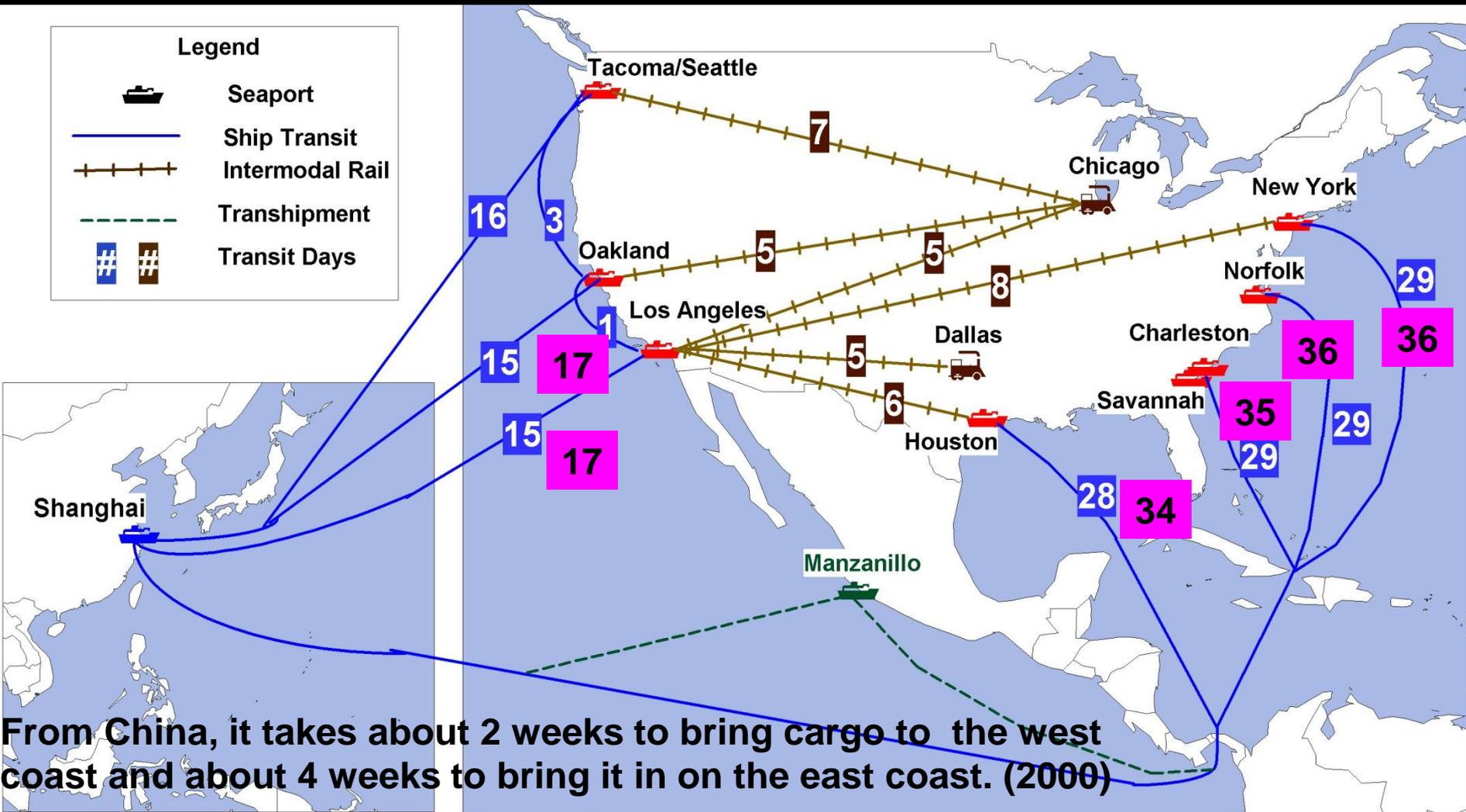
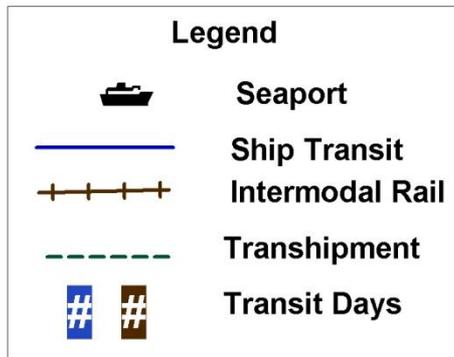
Atlantic Locks Site



Panama Canal Bottom Line

- BALANCE – In Market Share after 2014 will be the answer. Approx. 52%-48% today, 50%-50% after 2014.
- IF- Ocean Carriers re-work pricing after Panama Canal Expansion- lowering prices by 30% for all water, compared to LA/LB + Intermodal, AND the RRs do not drop correspondingly—you could see 10%-20% Market Share drop from WC to EC.
- Likelihood of this happening? 1 in 10.

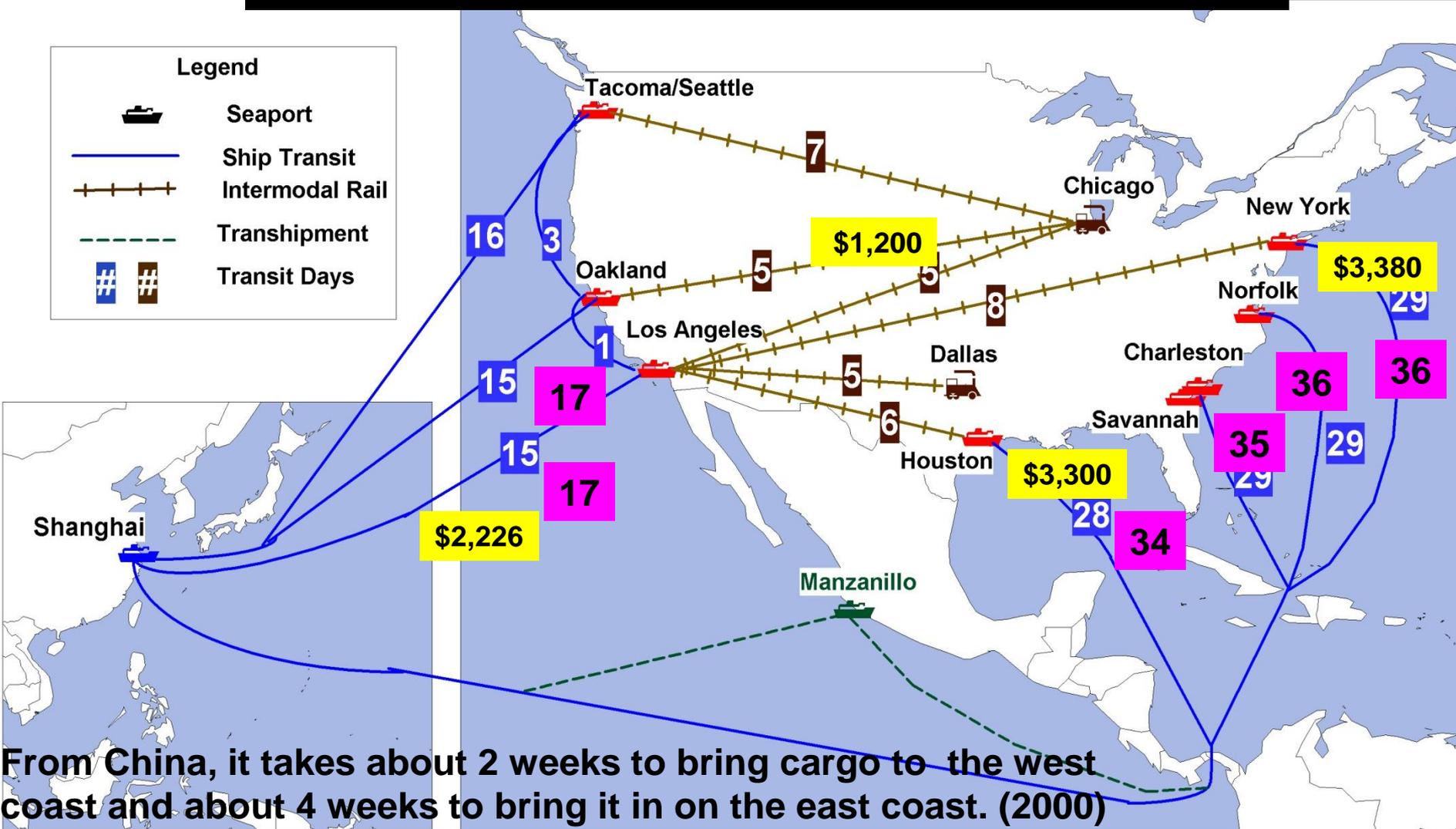
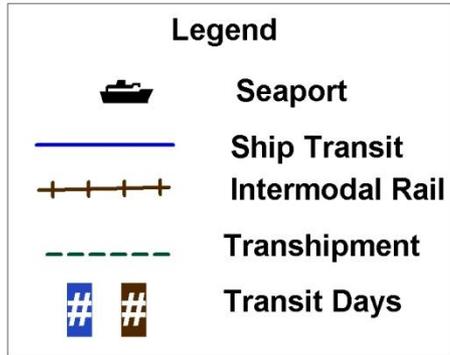
Shanghai to North American Ports: Slow Steaming Effects – 2000 & 2013



From China, it takes about 2 weeks to bring cargo to the west coast and about 4 weeks to bring it in on the east coast. (2000)

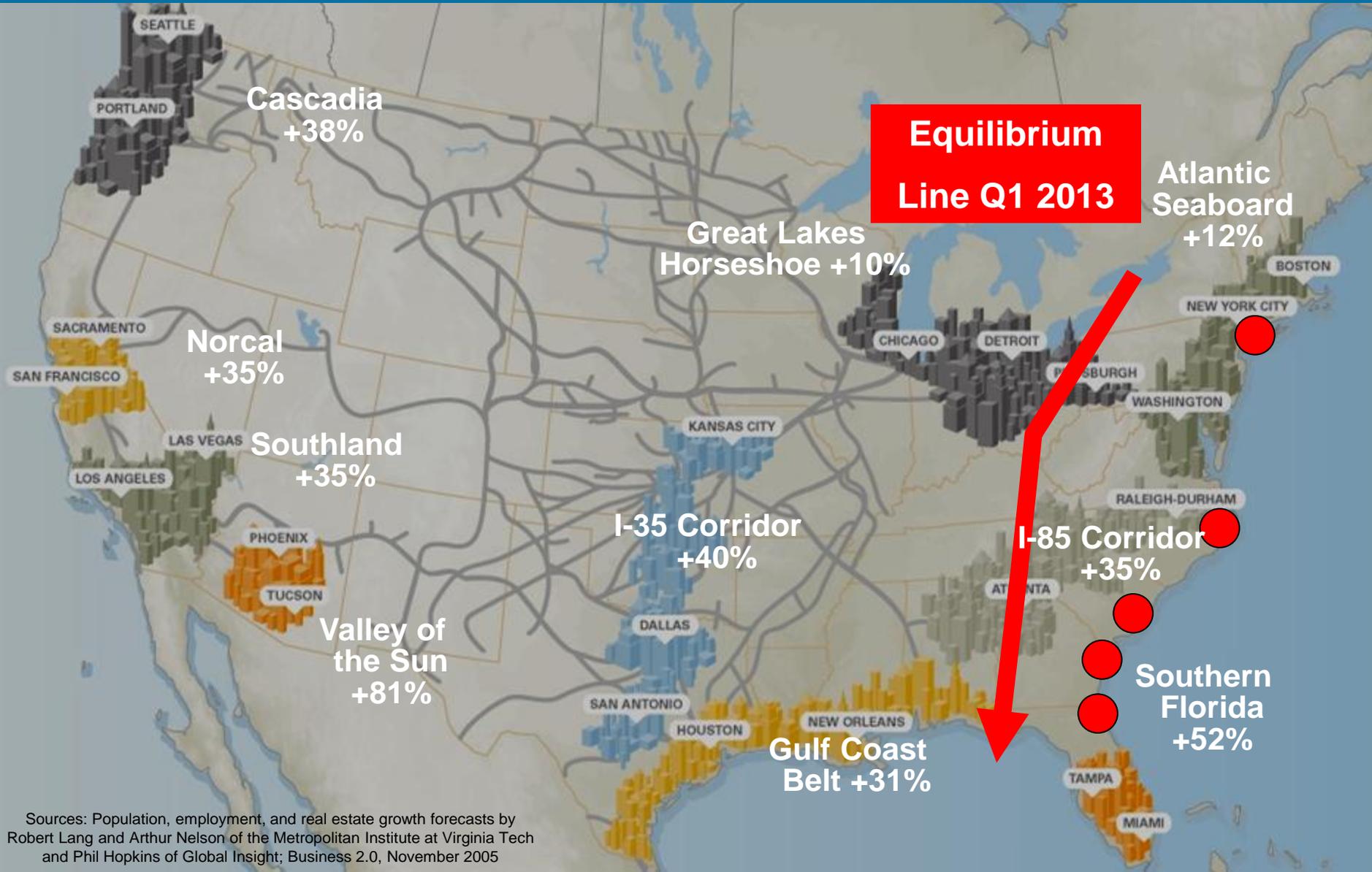
Shanghai to North American Ports: Slow Steaming Effects –2000 & 2013

Pricing as of April 2013

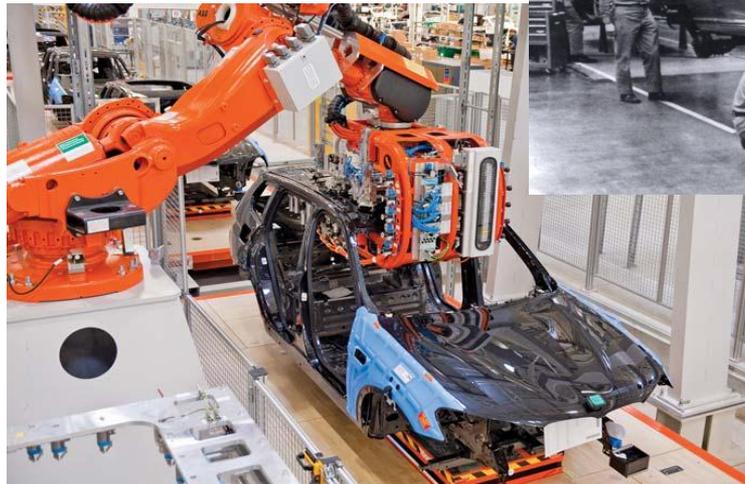


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East Coast-West Coast TEU Cost Line Equilibrium- Mar. 2013



Manufacturing Trends



www.imsww.com

Foreign Trade Zone, Logistics and Supply Chain Consulting

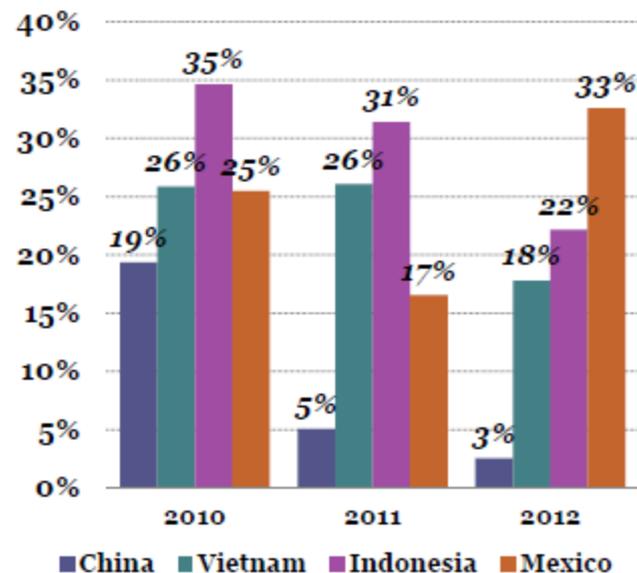


Share of U.S. Footwear Imports (In \$); China vs. Other Developing Economies

Vietnam, Indonesia, Mexico gaining share at China's expense

	2010	2011	2012
China	0.761	0.738	0.718
Vietnam	0.078	0.090	0.101
Indonesia	0.028	0.034	0.039
Mexico	0.015	0.016	0.021
India	0.009	0.009	0.011
Dom Rep	0.008	0.009	0.010
Brazil	0.017	0.011	0.009
Thailand	0.006	0.006	0.005
Cambodia	0.001	0.002	0.002
Bangladesh	0.000	0.001	0.001

Mexico, Indonesia growing faster than China



SOURCE: ITC; own calculations

HTS - 64: Footwear, gaiters and the like; parts of such articles

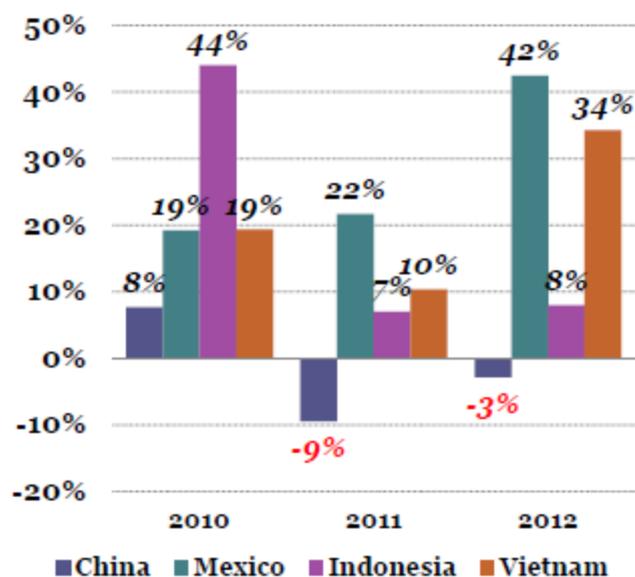
Share of U.S. Toys Imports by \$ Value: China vs. Other Developing Economies

Mexico, Indonesia, Vietnam gaining share at China's expense

	2010	2011	2012
China	0.839	0.815	0.813
Mexico	0.018	0.024	0.035
Taiwan	0.025	0.028	0.031
Thailand	0.008	0.008	0.009
Indonesia	0.006	0.007	0.008
Vietnam	0.005	0.006	0.008
Philippines	0.002	0.003	0.003
Malaysia	0.004	0.003	0.003
India	0.001	0.002	0.002
Czech Rep	0.001	0.002	0.002

SOURCE: ITC; own calculations
HTS - 95: Toys, Games, Sports Equipment: Parts, accessories

Mexico, Vietnam growing faster than China



Share of U.S. Furniture Imports (In \$): China vs. Other Developing Economies

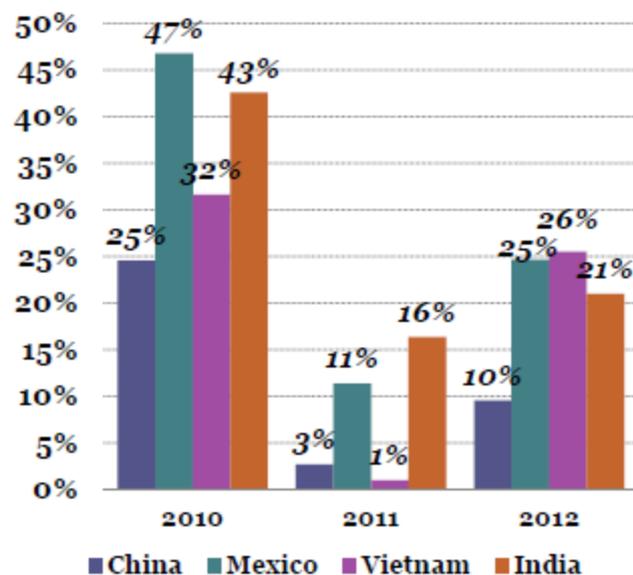
Mexico, Vietnam, and India gaining share at China's expense

	2010	2011	2012
<i>China</i>	<i>0.528</i>	<i>0.515</i>	<i>0.506</i>
<i>Mexico</i>	<i>0.149</i>	<i>0.158</i>	<i>0.177</i>
<i>Vietnam</i>	<i>0.048</i>	<i>0.046</i>	<i>0.052</i>
<i>Malaysia</i>	<i>0.021</i>	<i>0.019</i>	<i>0.018</i>
<i>Indonesia</i>	<i>0.015</i>	<i>0.014</i>	<i>0.015</i>
<i>India</i>	<i>0.008</i>	<i>0.009</i>	<i>0.010</i>
<i>Poland</i>	<i>0.008</i>	<i>0.009</i>	<i>0.007</i>
<i>Thailand</i>	<i>0.008</i>	<i>0.006</i>	<i>0.005</i>
<i>Philippines</i>	<i>0.004</i>	<i>0.004</i>	<i>0.003</i>
<i>Brazil</i>	<i>0.003</i>	<i>0.003</i>	<i>0.002</i>

SOURCE: ITC; own calculations

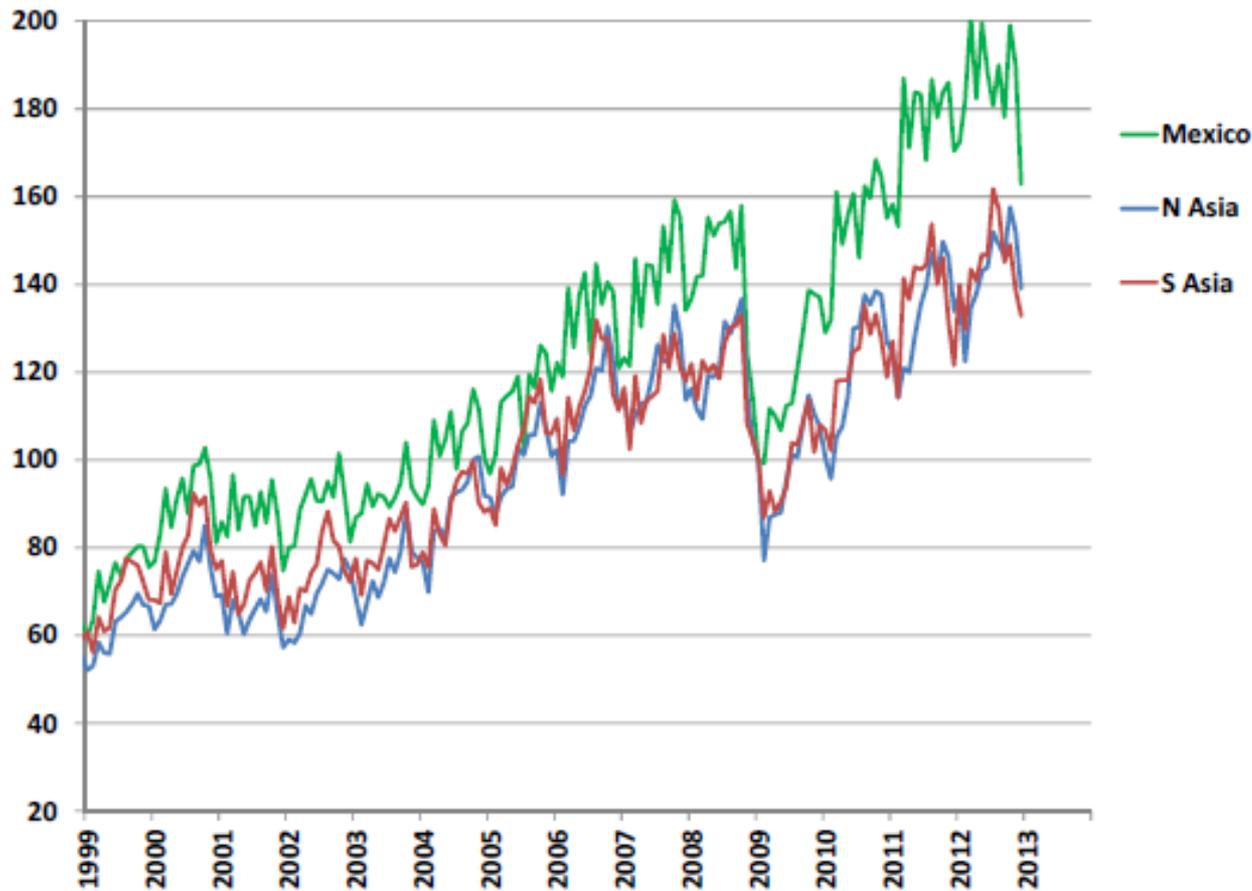
HTS - 94: Furniture; bedding; cushions etc; lighting fittings

Mexico, Vietnam growing faster than China



Mexico Exports to US have Outperformed Asia Since 2009

Index of US Imports From Mexico and Asian Trade Lanes (Jan 2009 = 100)

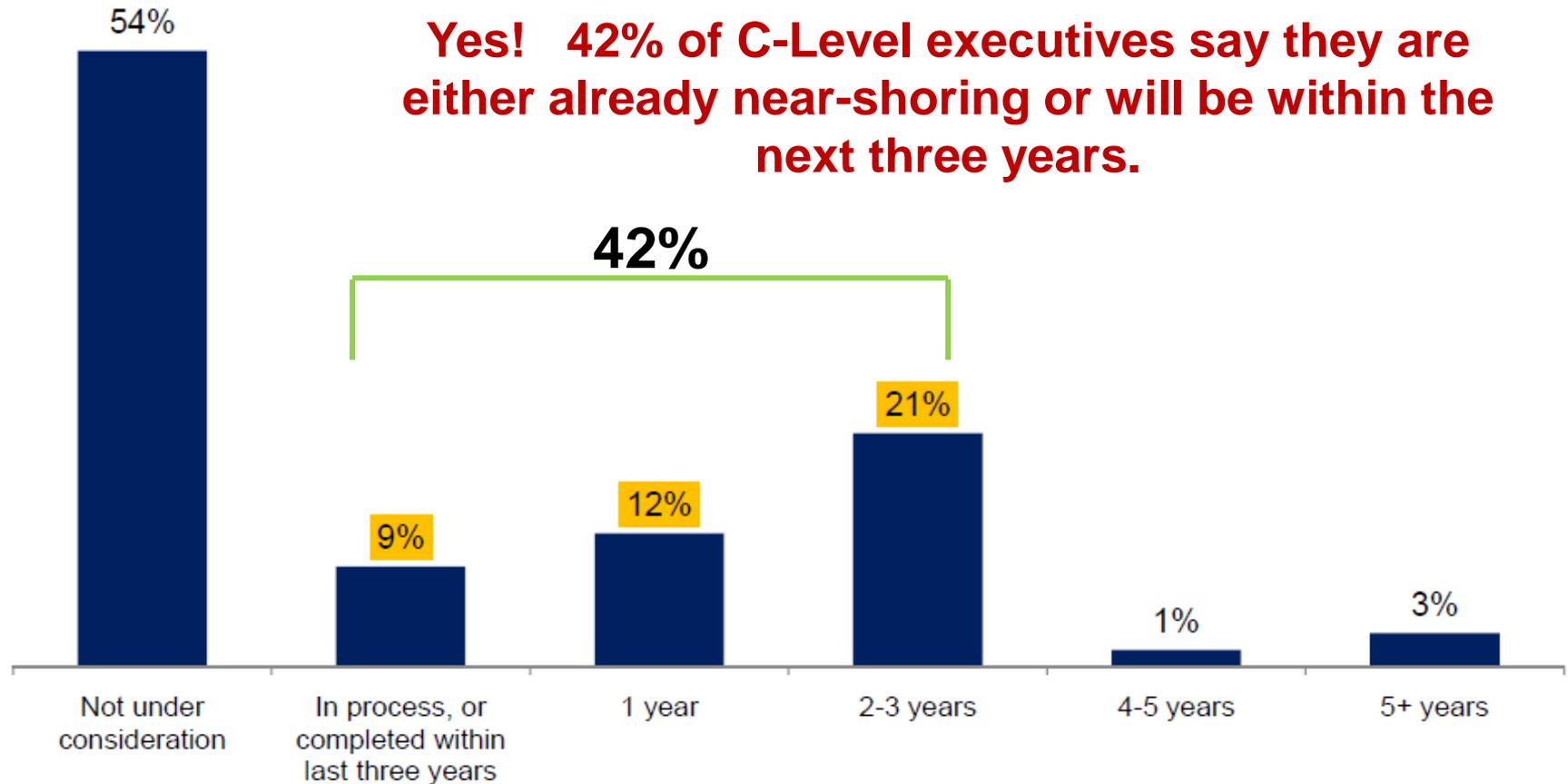


Mexico Benefits by Shifts in Wages, Transportation Costs from China

- Bloomberg: “for the first time in recent history it is cheaper to manufacture in Mexico than in China for companies targeting the US market”
 - For example, it only takes five days to ship from Mexico to Canada, compared to up to 46 days to ship from inland China to Canada
 - Companies can source products in Mexico for North American markets and save both time and money on shipping and inventory transit costs”

Are Companies Actually Near-Shoring in Mexico?

Yes! 42% of C-Level executives say they are either already near-shoring or will be within the next three years.



SOURCE: *AlixPartners, LLP, 2011*

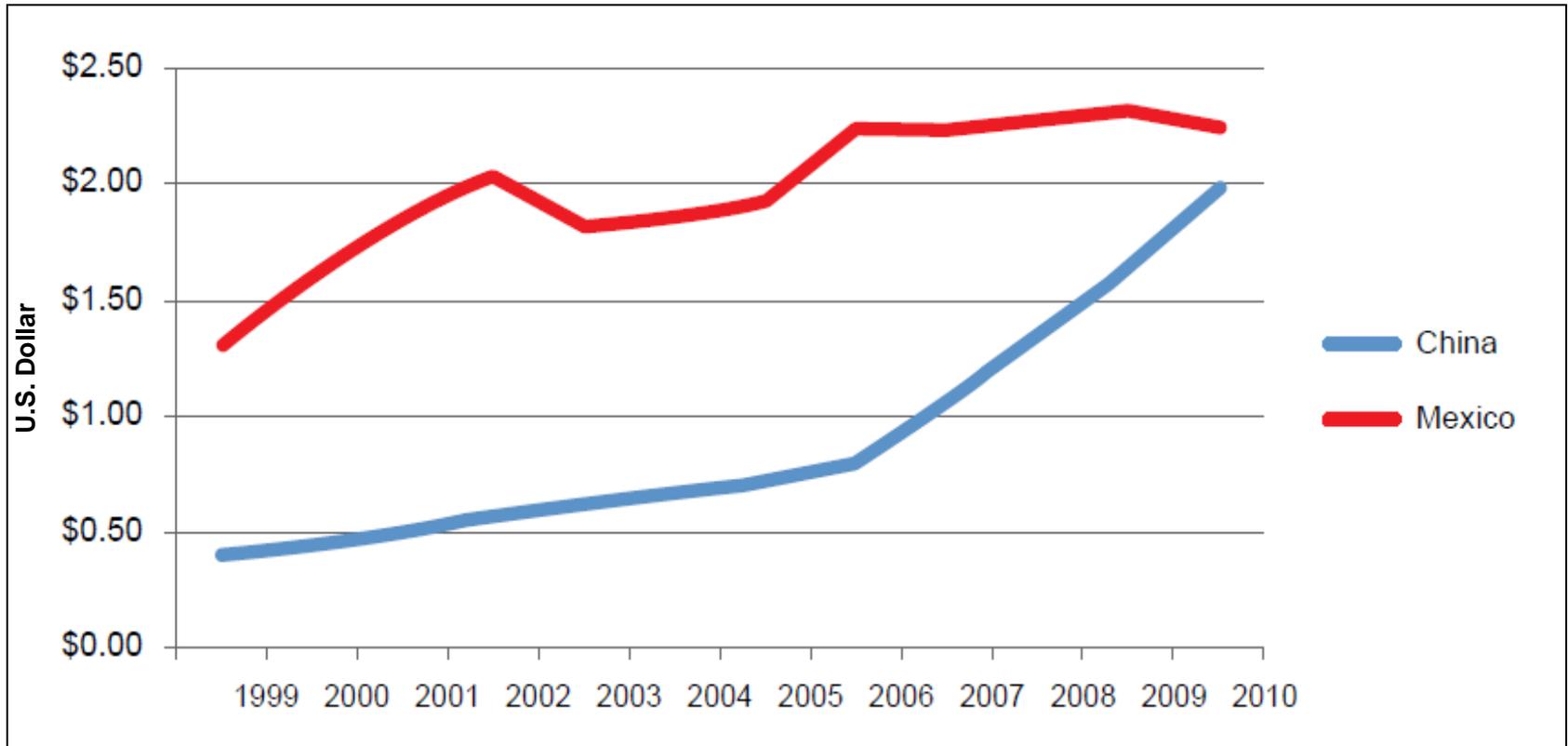
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Foreign Trade Zone, Logistics and Supply Chain Consulting



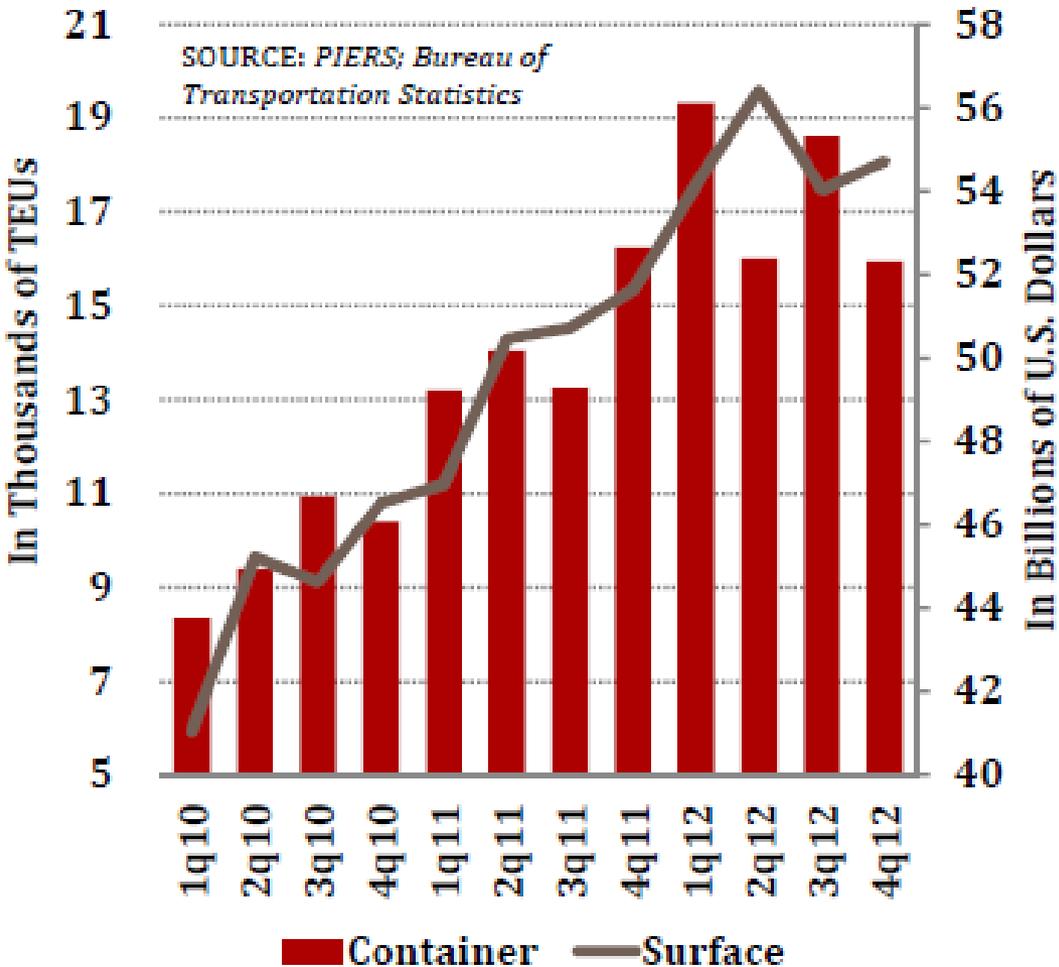
Mexico vs. China Wage Rate

Since 2003, wages in Mexico have risen only 25 percent compared to 218 percent in China.



SOURCE: International Labour Organization, U.S. Bureau of Labor Statistics

U.S. Surface and Container Imports from Mexico



THRIVING U.S. – MEXICO TRADE

- U.S. surface imports from Mexico rose 9.8% in 2012, after 12.6% increase in prior year
- Container imports from Mexico also rising markedly, up 45% in 2011, 23% in 2012.
- Container imports from China up only 0.6% in 2011, down 0.4% in 2012
- Similar products; proximity to US

Retail Trends



Types of E-Commerce

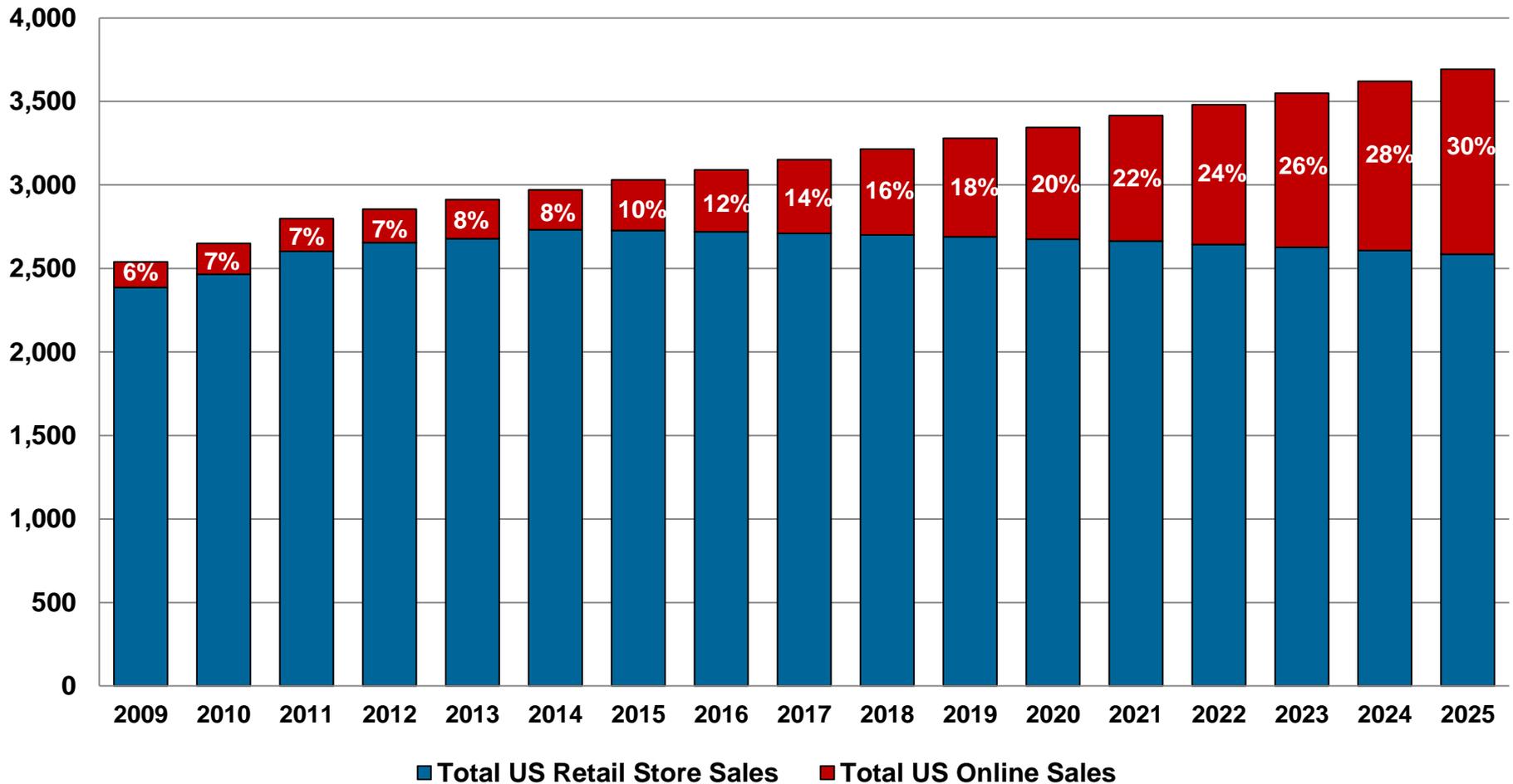
- E-Commerce = Electronic Commerce (Computer, Laptop, Desktop)
- M-Commerce = Mobile Commerce (Phone, tablets, readers etc.)
- S-Commerce = Social Commerce (Derived from Social Networks such as Facebook, Twitter, Groupon, etc.)

Projected Impact of E-Commerce

- By 2025 it has been estimated that Ecommerce will represent 30% of all Retail Sales and account from *2.7 trillion in total sales* (Source: Dematic)
- Within 5 years, the percentage of sales closed at physical stores vs. alternative sales channels (E-Commerce, M-Commerce and S-Commerce) will drop from 91% (today) to 76% (Deloitte Study)

Projected Online U.S. Retail Sales as a Portion of Total US Retail Sales 2009-2025

In Billions of



E-Commerce Impact on Industrial

- ***One-third of all demand for big-box space in the US in 2012 was tied to multi-channel retail or E-Commerce*** (Area Development Magazine, 2013)
- The E-Commerce generation of industrial is ***up to 5 times more labor intensive*** than traditional retail/distribution: more parking, mezzanine build-outs and increased automation are some of the features difficult to retrofit to older buildings, but many can be converted. (Area Development Magazine, 2013)

E-Commerce Key Criteria for Site Selectors

- Avoidance of Nexus Tax (may get mitigated, but not yet....)
- Proximity to major markets
- Inexpensive land
- UPS and FedEx Truck Hubs nearby
- Ample seasonal/surge labor pool
- Reasonable proximity/access to interstates
- Local incentives: Tax breaks—FTZ!!

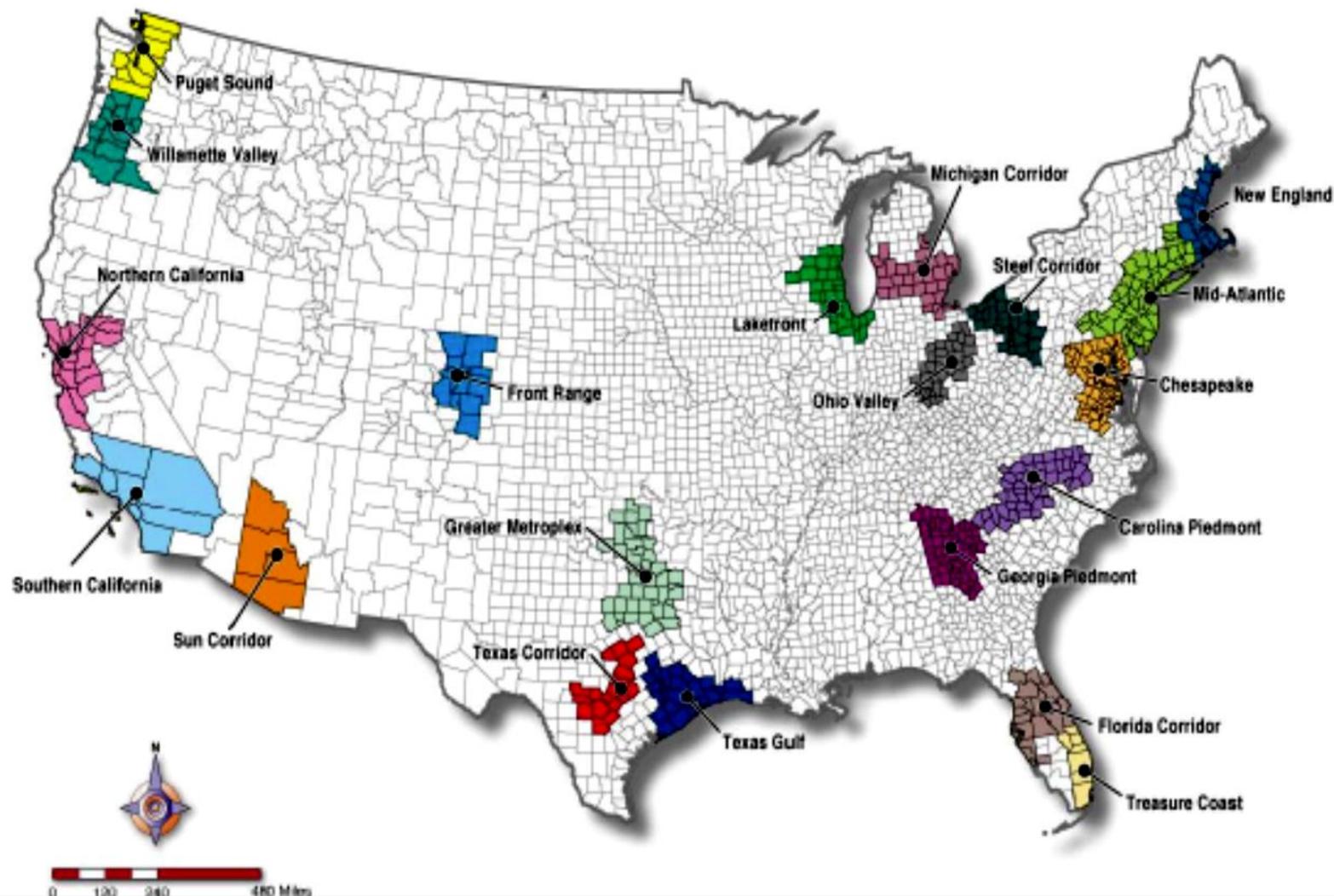
Bottom Line for Industrial RE?

- Stay in the Markets where the PEOPLE ARE!
- Invest where they PEOPLE ARE GOING TO BE!
- 10 and 20 year Demographics are changing.
- Northeast did not sustain the “hit” that everyone predicted, because of the Recession.
- Florida and PHX actually stayed the same from 2008-2010. PHX and HOU fastest growing metros last 12 months.
- Look for where the demographic trends are likely to emerge in 10 year segments and plan accordingly.

FROM METROPOLITAN TO MEGAPOLITAN

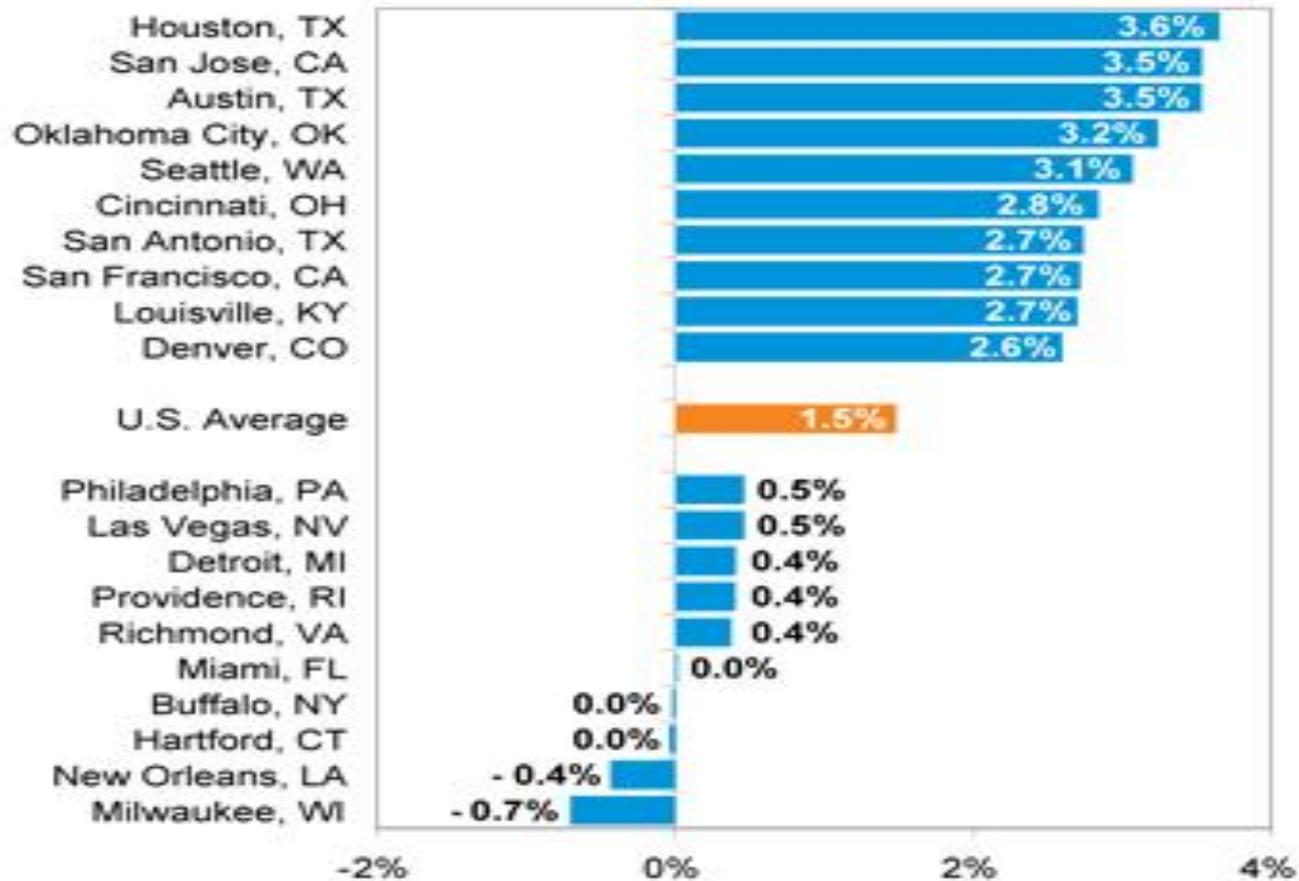
100 MM NEW PP IN U.S. BY 2040 – 60 MM IN 20 MKTS

Megapolitan America



Payroll Jobs, % Change Year Over Year

Large Metros, Top & Bottom 10



Source: Newmark Grubb Knight Frank
Bureau of Labor Statistics

Conclusion: What Does This All Mean to Me?

- Recession is over, but growth is slow.
- Supply Chains create need for more space. (E-Commerce and export centers)
- We are seeing this now in continued consolidation to large “Big Box” DC’s.
- New E-Commerce phenomenon will create more demand for Industrial Space.
- Incentives (like FTZ, large truck courts etc.) will continue to distinguish Big Boxes.
- Never forget...We add 4 Million new mouths to feed each year in the USA!



QUESTIONS?

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