

TECHNOLOGY AND LOGISTICS CHANGING THE WAREHOUSE WORLD

By Steve Lewis

It is more difficult to identify the areas in which technology and logistics are not impacting the construction and use of warehouses than it is to discuss where they are having an impact. From the internal space and design needs of buildings to their size and location, SIORs agree the changes are dramatic.

“Technology is clearly impacting new development,” says **Danny Zelonker, SIOR, CCIM**, of Real Miami Commercial Real Estate in Coral Gables, Fla. “Everything being produced is high tech — from the light bulbs to LEED certification. Ceilings are going up to 36 feet, and so on.”

Mike Hillis, SIOR, CCIM, principal of Avison Young in Las Vegas, Nev., agrees. “I think there has been a pretty dramatic influence, primarily spawned by the e-commerce trade,” he asserts. “The sophistication of e trade dictates a really dramatic change in how buildings are configured and where they are located.”

“It’s all around us,” adds **John Robbins, SIOR, FRICS**, of Carpenter/Robbins Tenant Advisory Services in San Ramon, Calif. “Automation of manufacturing requires different buildings — more reliable power, more clear height, better column spacing — it just goes on and on.”

Increased efficiency is also a key factor, he notes. “In Silicon Valley, Tesla is making cars in one of the most expensive places to acquire industrial real estate in the country, and they are making it happen,” says Robbins. “BMW recently built a 5 million-square-foot plant in Spartansburg, S.C., that makes every model of BMW in the world. How can they do that? They have 8,000 employees, but half of the line assembly people are outsourced from third-party personnel firms. Why? They have over 700 robots and they are adding more every day.”

New technologies are having a dramatic impact, adds **David L. Liebman, SIOR, JD, LEED**, Green Associate Managing Broker with Merit Partners, LLC in Chicago, Ill. One example, he shares, is local freight broker Load Delivered Logistics, which developed proprietary scheduling technology/software that has improved efficiency dramatically.

“When warehouse users want more volume today, if they are able to send one carrier instead of three to pick up products then obviously everybody wins,” he explains. “Having three shippers come to the same location to go to different places is silly; they pay three different rates. This way they all get an advantage on rates.”

Accordingly, he continues, large food distributors like Sysco have impacted the way in which infrastructures are built. “The main factors impacted involve optimization — increasing the ability to store products by creating more efficiency,” he says. “And all the technology, like robots, creates less need for labor. The forecasting ability allows brokers’ customers the opportunity to have less lead-time in which to receive and store products when they can turn inventory 50 percent faster they can store goods on trucks, instead putting them in the warehouse — i.e., when they are stored for a few hours as opposed to a few days.”

DIFFERENT TYPES OF BUILDINGS

Some of these changes, notes Liebman, have led to new realities in the market when it comes to warehouses and where they are located. “Consider omnichannel distribution — the Amazon model,” he offers. “They have created monster warehouses of two or three million square feet, where they store large quantities of products, but they also have a second tier of distribution centers of around 300,000 square feet right outside of the cities, where they can be delivered into people’s hands quicker. The bulk is stored



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in the big buildings, but then drop-shipped to smaller distribution centers.

“You’re seeing a kind of revolution in the way warehouses are built, used, leased and acquired,” Liebman continues, indicating how this impacts business for SIORs. “You now have these networks of warehouses – there could even be three different tiers of them. Ultimately you have more square footage deployed in a way that’s more efficient. This creates more opportunities to do deals. And when it comes to consolidating and being more efficient, that creates more opportunities; we are in the process of leasing, subleasing, or selling some buildings that are now obsolete.”

Zelonker agrees that business has picked up for smaller warehouses. “I’ve done five deals in the last 30 days, the biggest of which is 80,000 square feet,” he shares. “Nobody had built warehouses for five years, and now a lot of REITs are involved in new construction. KTR partners built a 336,000 square foot spec building and Amazon took it.”

“Real estate is more into supply chain issues — where to ship to, where your customers are, what your source of supply is, and what the labor force is,” says Hillis. “For example, in the past year Urban Outfitters had a 400,000 square foot facility requirement that was different than your typical distribution facility in terms of parking space. Now, you basically have round the clock service from shipping and receiving. In the old typical warehouse you’d take pallets off the truck and ship them. Now, you might pick up three pair of

shorts to ship to the client directly from the distribution facility, so your materials handling requirements are significantly different. Most buildings now have fully automated shipping and picking equipment, and high bay forklifts in narrow aisles that are wire guided.”

In his area, he adds, land requirements have also changed. “You need a lot more parking for employees, and almost all e trade folks have their outbound shipments go through FedEx, UPS, and so on, so you need significant trailer parking,” Hillis observes.

Technology has enabled some “dead” industries to come back, adds John Barker, Jr., SIOR, president and chief development officer of Red Rock Developments in Charlotte, which has created additional opportunities for real estate professionals. “The garment business in the U.S. has come back; we’ve seen half a dozen very large yarn manufacturers come back to the market and they’re very tech-driven, not a lot of labor,” he says. “Comeback industries include aerospace, and automobiles, and we’ve seen a lot of shift back to plastics and related companies — any industry whose products are light. It all gets back to supply chain.”

But Hillis says the new reality has also created some challenges for his business. “For example, the traditional warehouse in current inventory is effectively obsolete; it’s under-parked,” he notes. “In addition to needing more land, considerations now include public transportation — how the employees will get to the building. That’s a consideration now where there never was one before.”




Meanwhile, Hillis continues, he is seeing more interest in build to suit opportunities because “We just can’t find a facility. I get inquiries all the time – send me an inventory of existing 400,000 square foot facilities – and that’s easy; there aren’t any. We’re also having problems with a dozen different distribution opportunities talking about new products versus fitting new technology into an old building.”

CHANGING WITH THE TIMES

SIORs say they have adapted their strategies and also increased their knowledge in several areas in order to reap the benefits of these new opportunities. “I started getting involved in third-party logistics back in the early 90s,” says Liebman. “I had to learn a new language, but over the years it keeps on transitioning to a higher efficiency. Now we have a whole new set of vocabulary to learn, so we have to learn it to adapt to needs and requirements.”

“When we work with a manufacturing company, our first question is, ‘Have you had your manufacturing process examined to improve flow and productivity?’” says Robbins. “If the answer is no, we insist on bringing an industrial engineering firm in to make sure we are getting the correct building for their future.”

“You need to develop an understanding of the internal operations of these buildings — not just bricks and mortar, not just square feet and clear height,” adds Hillis. “You have to know if it has, for example, added electrical capacity to handle the demand of materials handling equipment. Is it located where employees can get to it? Are there amenities for employees around the facility? If a lot of people work there you need restaurants, dry cleaners, etc., nearby. There are a whole bunch of nuances with these new facilities.”

Robbins cautions others to keep their expectations realistic when it comes to predicting an immediate boom-let due to technology and logistics. “From announcement until implementation, technology takes time and capital,” he observes. “Look at the personal computer; predictions were that it would revolutionize the administrative world when it was introduced, but we are just now seeing in the past decade the real impact on information and middle management. Any change takes time. The predictors were correct, but just not about when.” 



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