E-Commerce Fulfillment Centers
Their Growing Influence on Industrial Real Estate

Moderator:
Curtis Spencer, IMS Worldwide

Panelists:
Kevin Rogus, DUKE Realty
Carlos Vega, DEMATIC

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Curtis Spencer
IMS Worldwide

- Curtis Spencer is the president of IMS Worldwide, Inc., headquartered in Houston, Texas.
- He is a nationally regarded expert on matters related to logistics and intermodal shipping trends, ports, inland ports and rail-served logistics centers; the development and utilization of Foreign-Trade Zones for importers and exporters; and all aspects of custom’s issues and compliance, specifically those related to homeland security.
Types of New Commerce

- E-Commerce = Electronic Commerce (Computer, Laptop, Desktop)
- M-Commerce = Mobile Commerce (Phone, tablets, readers etc.)
- S-Commerce = Social Commerce (Emerging segment derived from Social Networks such as Facebook, Twitter, Groupon, etc.)
What Retail Tells Us

• **National Retail Federation:** retail growth for 2012 should be 3.4%, down from 4.7% growth in 2011 (GDP growth 2.1%-2.4%)

• Amazon growth in 2010 was 39.5%, revenue of $34.2 Billion
  – 52 Distribution Centers exist
  – 28 overseas order processing, fulfillment DC’s
  – 17 Distribution Centers proposed/planned
  – Two new DC sites announced in TX, three in CA
  – Plans to go to 95 Million Ft.
Projected Impact of E-Commerce

• By 2025 it has been estimated that Ecommerce will represent 30% of all Retail Sales and account from \textit{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 $

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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)
Distribution and Logistics

- Traditional retail supported by distribution center(s) located in key markets or logistics hubs
- Merging traditional storefront replenishment with E-commerce fulfillment
- Blended strategy, stand-alone strategy or third party strategy, or omni-channel?
  - Amazon, Google, Macy’s and Bass Pro
How Are They Making It Work?

• Single DC supports national store replenishment and E-Commerce order fulfillment (Multi-channel DC-FC)
• Stand alone DC(s) for store replenishment and stand alone E-Commerce fulfillment centers (in different locations)
• Third-party sourcing for all aspects of fulfillment and transaction support
• Third-party sourcing for selected goods to enhance product launch, seasonal products
Supply Chain Structures

- **Traditional Logistics for Storefront-Only Retailers**
- **Separate, E-Logistics and Traditional DC**
- **Blended Multi-Channel Distribution Centers**
E-Commerce Key Criteria for Site Selectors

• Avoidance of Nexus Tax
• Proximity to major markets
• Ample seasonal/surge labor pool – Right to Work States
• Inexpensive land
• Reasonable proximity/access to interstates
• Local incentives
  – Tax breaks
  – FTZ

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Mapping the Web | Amazon seeks to minimize sales-tax collection across the U.S.

Amazon designations
- Bad states
- Neutral states
- Safe states

Lost tax revenue
Estimated amount of state and local taxes lost from e-commerce, 2007-12, in billions
- $25
- $10
- $1

States where Amazon has warehouses, technology-development offices and/or call centers

© This illustration is based on a document reviewed by The Wall Street Journal and interviews with former Amazon employees, who said they abided by the company's travel restrictions within the past year. Amazon limits employee business travel to 'bad' states and, to a lesser extent, neutral states, these people said. They said employees can go to 'safe' states. †Warehouses are planned.

Note: States without circles have no sales tax

Reflects Right to Work States

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Locations Where ECFC Are Likely to Locate

- States that do NOT tax internet sales
- States with high levels of labor, full and part-time
- States with right to work laws
- States that house both air and ground UPS/FedEx hubs
- States where “zone-skipping” is available to major population centers
- States that offer real property or other tax incentives
- States with a robust FTZ program
FedEx SmartPost Hub Network
Locations where ECFC are NOT likely to locate

- States which tax E-Commerce
- States with high levels of unionized labor
- States which do not have the Fed-Ex, UPS ground/air ops hubs
- States with expensive labor
Successful Companies
Sustaining their Competitive Position
Academy Sports and Outdoors

• Second distribution center opened in 2007 outside Macon, GA to support store growth in southeastern US

• In 2011, started an E-Commerce platform out of the Macon warehouse (mezzanine) in order to support national E-Commerce
  – Maintained current store fulfillment from Houston and Macon DC’s to 130+ stores
  – National E-Commerce fulfillment SKU demand vastly different from typical store requirements

• Will implement FTZ in 2015
Academy DC in Macon GA.
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.
Megapolitan Outlook 2010-2030 (Post-Recession)

- Cascadia +38%
- Great Lakes Horseshoe +10%
- Atlantic Seaboard +12%
- Southern Florida +52%
- I-35 Corridor +40%
- Valley of the Sun +81%
- Gulf Coast Belt +31%
- I-85 Corridor +35%

Sources: Population, employment, and real estate growth forecasts by Robert Lang and Arthur Nelson of the Metropolitan Institute at Virginia Tech and Phil Hopkins of Global Insight; Business 2.0, November 2005
What Does All of this Mean to the Logistics Industry

- Pace of change will continue to increase
- Supply chains will continue to be complex
- Globalization in all industries likely to continue to occur
- Growth in e/m/s commerce will lead the retail and logistics industries
Case Study:
Duke Realty E-Com Facilities
Kevin Rogus is senior vice president of Duke Realty’s Phoenix operations.

He is responsible for identifying opportunities and executing projects in Phoenix, as well as identifying opportunities for expansion into new markets in the western United States.
E-Commerce Facility in Goodyear AZ
E-Commerce Facility in Middletown DE
Duke’s Lessons Learned

• Confidentiality is key for many users during the site search
• Incentives (local, FTZ) are key influencers
• Larger tenants handle their own incentives
• Incentives drive schedule many times
• Developer may take risks to expedite…..
• After incentives process, schedule may adjust
Carters.com 1 Million sq.ft. FTZ Building

- Size: 1,061,237 SF
- Parking: 1,000 auto spaces
- 400 trailer spaces
- Highway Access: I-85 exposure

Cross-Dock
32” Clear Height

1,000 Auto spots!

175' Truck courts
Thank you

Kevin Rogus
Sr. Vice President
Duke Realty, Western Region
Carlos Vega
DEMATIC

- Regional Director- West Coast Sales
- Regarded as an industry expert of Automated Supply Chain Solutions
- Provides his clients with a unique perspective by leveraging his 26 years experience in executive roles on both sides of the solution ("Asset Based User" and "Solutions Provider").

@ DematicNA
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Objectives

• Market Growth

• E-com Site Requirements

• Project Time Line

• Iherb.com Video Case Study

• Capital Challenges for new start-ups
Annual online retail sales growth has topped the 15% mark for three consecutive years, tripling or more the rate of overall retail sales growth in the United States. This trend will only continue and intensify going forward.
Geographical Requirements

- Mil.+ Customers/Destinations
- Free Trade Zones
- Sales Tax Incentives
- FedEx, UPS Hubs
- Customers
- Expandable Site / Less Shipping Doors
- More/Flexible Labor Pool
- Parking up to 4’xs
### Internal Design Consideration (Vary by Site)

<table>
<thead>
<tr>
<th>Item</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Slab:</td>
<td>Non &amp; Reinforced</td>
</tr>
<tr>
<td>Structural:</td>
<td>Potential Ceiling</td>
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<tr>
<td>Clear Height:</td>
<td>30+</td>
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<tr>
<td>Doors:</td>
<td>E-Com, Omni Channel</td>
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<tr>
<td>Power:</td>
<td>HVAC, Automation,</td>
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<tr>
<td>Lighting:</td>
<td>Layout Dependent</td>
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<tr>
<td>Dock Height:</td>
<td>Container Trailers/Delivery Pup</td>
</tr>
<tr>
<td>ESFR Sprinklers:</td>
<td>Various Commodities</td>
</tr>
</tbody>
</table>
## Solution Design Consideration (Vary by project)

<table>
<thead>
<tr>
<th>Vertical Market:</th>
<th>Apparel, Food, Electronics…All</th>
</tr>
</thead>
<tbody>
<tr>
<td>Throughput:</td>
<td>100 or 1 Million orders a day</td>
</tr>
<tr>
<td>Customers:</td>
<td>Home, Business or other</td>
</tr>
<tr>
<td>Commodity:</td>
<td>Plastics, Wood, Electrical</td>
</tr>
<tr>
<td>Service Level:</td>
<td>Same Day, Next day, Ground</td>
</tr>
<tr>
<td>Order cut off:</td>
<td>5:00 pm</td>
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<tr>
<td>Pick Up Hours:</td>
<td>7:00 pm</td>
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<tr>
<td>Freight:</td>
<td>Who pays freight?</td>
</tr>
<tr>
<td>Shipping:</td>
<td>Same Day Shipping</td>
</tr>
<tr>
<td>Delivery:</td>
<td>Same Day, Next Day, Will Call</td>
</tr>
</tbody>
</table>
Time Line

Analysis: 1 - 4
Solution Design: 1 - 6
Engineer: 1 - 4
Implement 5 - 8
Launch: 1 - 6
Total 9 - 28

Other items
Site Selection
Negotiations
Contracting
Training

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iHerb.com

e-tailer of wellness products, vitamins, health foods

• Issues:
  – Double digit growth
  – Low automation
  – Need for process improvement

• Solution:
  – 360K sqft. Moreno Valley, CA
  – Climate Controlled
  – Tax/Training Incentives
  – Flexible Labor Pool
  – UPS, Fed. Ex,
  – Semi-Automated solution
  – Voice Pick, Put-To Light, Conveyor Sortation

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Summary

- E-Commerce space will increase
- E-Grocery is off and running
- Goods to Person Solutions
- Hardware acquisition through Real Estate
- Growing Developer/Broker partnerships with Equipment/Solution providers.

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Thank you!
Thank You!

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