NAIOP
COMMERCIAL REAL ESTATE DEVELOPMENT ASSOCIATION
CHICAGO CHAPTER

NAIOP CHICAGO WEBINAR

GLOBAL SUPPLY CHAINS IN THE POST PANDEMIC WORLD

Moderator

JOHN MORRIS
Executive Managing Director, Americas Industrial & Logistics Leader
CBRE, Inc.

Guest Speakers

JIM FORD
CEO
TRES, LLC

BRETT M. MEARS
President
Palmer Logistics

CURTIS D. SPENCER
President
IMS Worldwide, Inc.

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Current Outlook

- Good to be in Industrial right now
- Fundamentals remain strong, overall
- Tale of two cities
- Accelerating the transformation
- Broker sentiment now rising
- Proceed v. Delay v. Cancel
- Expectations for Q4 are better

CURTIS D. SPENCER

President

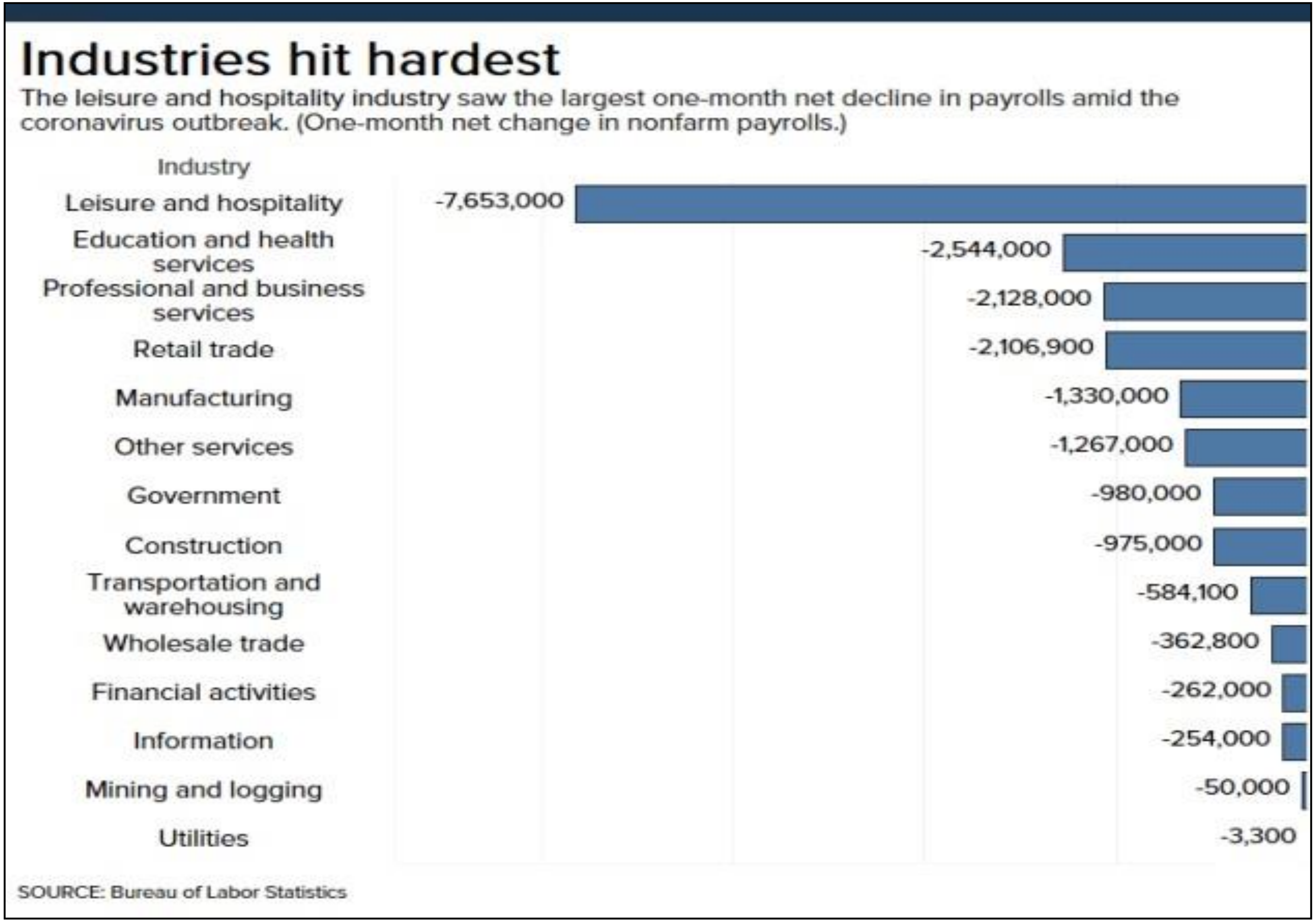
IMS Worldwide, Inc.

Agenda, Discussion for Today

- The Economy
- Retail and e-commerce
- Logistics and Transportation
- Industrial Real Estate
- What is the next normal?

The Economy

- Unemployment: “staggering 14.7%” on 5/8 -highest level on record since the Great Depression
- GDP: Q2 will decline 37% from April to June, largest quarterly drop since 1947.
- CBRE expects Annual GDP to fall by 4.9% in 2020 but grow by 6.1% in 2021. Source: U.S. Economic Watch, May 8, 2020


Industries hit hardest
The leisure and hospitality industry saw the largest one-month net decline in payrolls amid the coronavirus outbreak. (One-month net change in nonfarm payrolls.)
Industry
Leisure and hospitality -7,653,000
Education and health services -2,544,000
Professional and business services -2,128,000
Retail trade -2,106,900
Manufacturing -1,330,000
Other services -1,267,000
Government -980,000
Construction -975,000
Transportation and warehousing -584,100
Wholesale trade -362,800
Financial activities -262,000
Information -254,000
Mining and logging -50,000
Utilities -3,300
SOURCE: Bureau of Labor Statistics

May 8, 2020

Retail and E-commerce

- Amazon and Walmart
- Neiman Marcus Bankruptcy… "more to come"
- Supply chains and new technologies
- Automobile Sales -30% in May overall from April (Toyota -54%) (Hyundai -39%) (Mazda – 44%) (Honda -54%)

Retail and E-Commerce Growth

- United Parcel Service Inc. said home deliveries spiked nearly 70% by the end of March, with drivers making 15% more stops on their daily routes.

- During the last week of March, mail-order prescriptions grew 21% from the previous year to bring their share of the prescription drug market to 5.8%, the highest share in at least two years. Source SunTrust Robinson Humphrey analyst Gregg Gilbert

- In April, online giant Amazon.com Inc. reported a 26% jump in quarterly sales.

- Overall U.S. e-commerce sales rose 49% in April compared to a March 1 to March 11 baseline, according to Adobe Analytics.


Amazon totally dominates US ecommerce
Source: Visual Capitalist
US ecommerce market share:
49.1% Amazon
6.6% eBay
3.9% Apple
3.7% Walmart
1.5% Home Depot
1.3% Best Buy
1.2% Costco

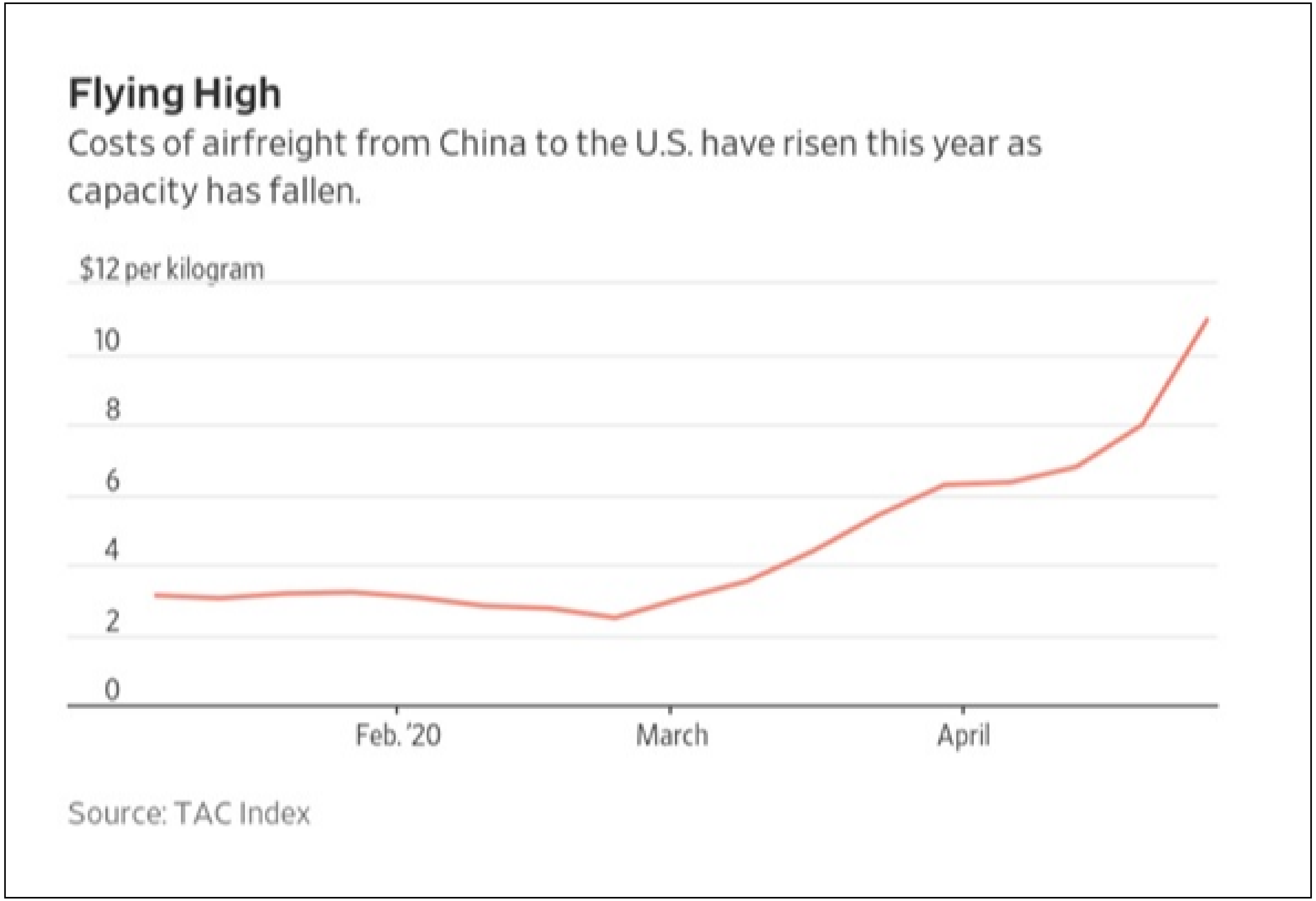
E-Commerce and Cold Chain Growth

- Industrial real-estate operators expect the disruption of consumer supply chains caused by the coronavirus pandemic to drive a new surge in warehousing demand.
- Demand could be particularly strong for temperature-controlled warehouse space to store food if consumers keep ordering groceries online, a market that has been booming as more people stay at home under social-distancing guidelines and have food delivered.
- Over the next five years an additional 75 million to 100 million square feet of industrial freezer and cooler space will be needed to meet demand generated by online grocery sales, according to real-estate firm CBRE Group Inc.

E-commerce and Cold Chain Growth

- While e-commerce now accounts for about 3% of total U.S. grocery sales, “there are huge growth prospects” as housebound shoppers get used to ordering produce, meat and other perishables online, said Matthew Walaszek, CBRE’s associate director of industrial and logistics research.
- Walmart Inc. generated nearly $900 million in online grocery sales last month, up 21% compared with February and nearly double the level of March 2019, according to data provider 1010data, which tracks credit- and debit-card sales.

Wall Street Journal, 4/13/20



Air Cargo:

- Asia-US Charter rates up to $1.5 million from $400,000 months ago for 747-Freighter
- Rates per kilo up to $12.00/k from $2.45/k months ago.
- IATA's Alexandre de Juniac: "Half of the worlds air cargo once traveled in the belly of the passenger aircraft, now idled by the CV crash"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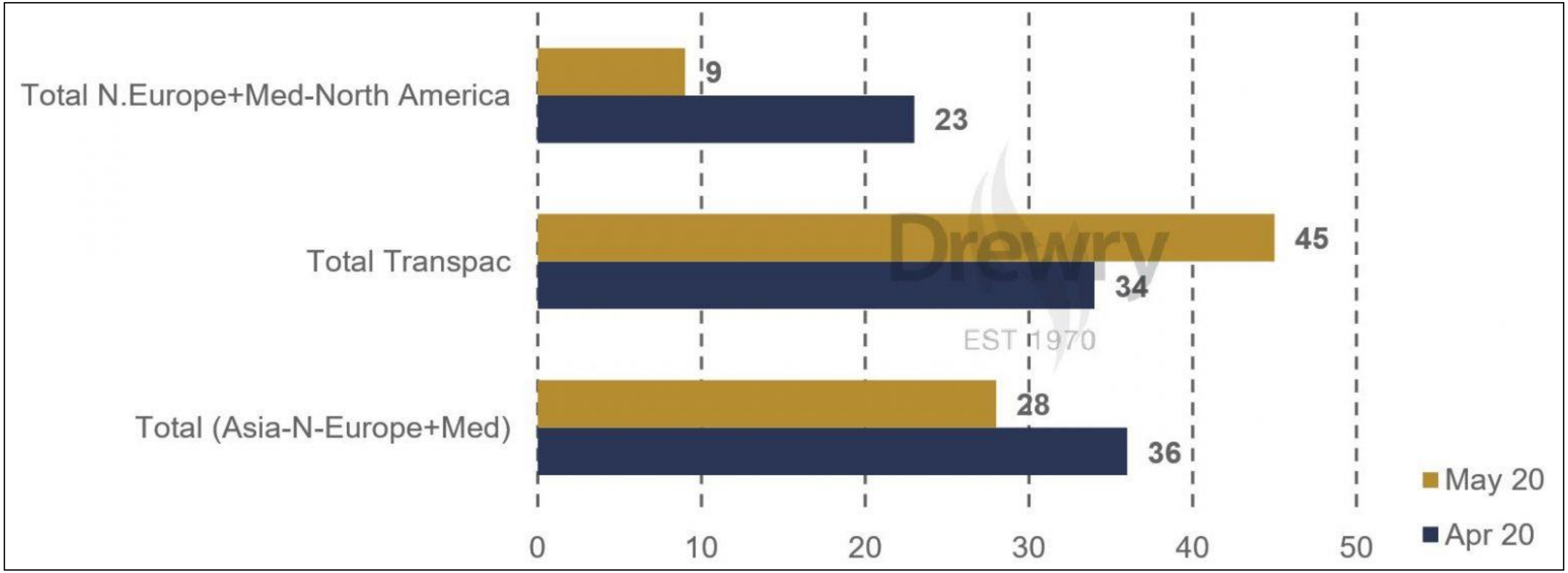
Logistics and Transportation

- Ocean Cargo The ongoing impact of COVID-19 was on full display in the declining number of United States-bound waterborne shipments for the month of March, according to data recently issued by global trade intelligence firm Panjiva.
- March shipments—at 829,501—were off 10.1% annually, falling for the seventh consecutive month. And on a year-to-date basis through March, U.S.-bound waterborne shipments—at 2,706,690—are down 6.8% annually.
- Trucking: orders for Class 8 trucks down 73% from April 2019, and 44% from March 2019 (Wall Street Journal, 5/5/2020)
  - XPO Bradley Jacobs: "E-commerce saved our April, we had 9% organic revenue growth in our last mile business for the first quarter, people were inside, people were ordering"

Overall the number of cancellations has decreased between April and May by 12%, apart from the Transpacific trade, where we see an increase of cancelled sailings of 32%. **Total Cancelled Sailings:**

Source: Drewry Cancelled Sailings Tracker



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Shipping Fluctuations

- There will be a review of "just in time" global supply chain systems.
- Lowest-delivered cost will remain important, but no longer the only consideration.
- **At a minimum, safety stocks will be increased, and redundancy will be a requirement.**
- Diversification in sourcing, routing and distribution will be a requirement.

Source: Larry Gross, Journal of Commerce 5/12/2020

Industrial Real Estate

David Egan (*Head of Industrial & Logistics Research, Americas & Global,* CBRE):

- Each $1 Billion in new e-commerce spending drives a demand for 1.25 million SF of new industrial product
- Total E-commerce percent of retail share was projected to be 14%, but now approaching 20% of total retail, this will require +400 million SF in future
- 5% increase in safety stock (near shoring or longer lead time expectation) will require another +700 million SF in new industrial in the future-expect that many companies will accelerate re-shoring
- Signals are stable, low vacancies, not oversupplied, but the pace of deliver will slow in 2020-2021 but E-commerce adoption rate spiked in last months

The Next Normal

- Two years before we return to 2019 air passenger volumes
- E-commerce and safety stock will keep Industrial strong: JIT only works inside N. America---COVID proved that point!
- Office will be impacted by the new work at home normal…..
- Globalism versus nationalism impacts supply chains and sourcing
- Social distancing becomes contract tracing; challenges privacy norms of today
- Still places of great opportunity-Columbus Rickenbacker Airport ground zero for air cargo PPE distribution; Phoenix Metro for Manufacturing and W. Coast Fulfillment.

JIM FORD

CEO

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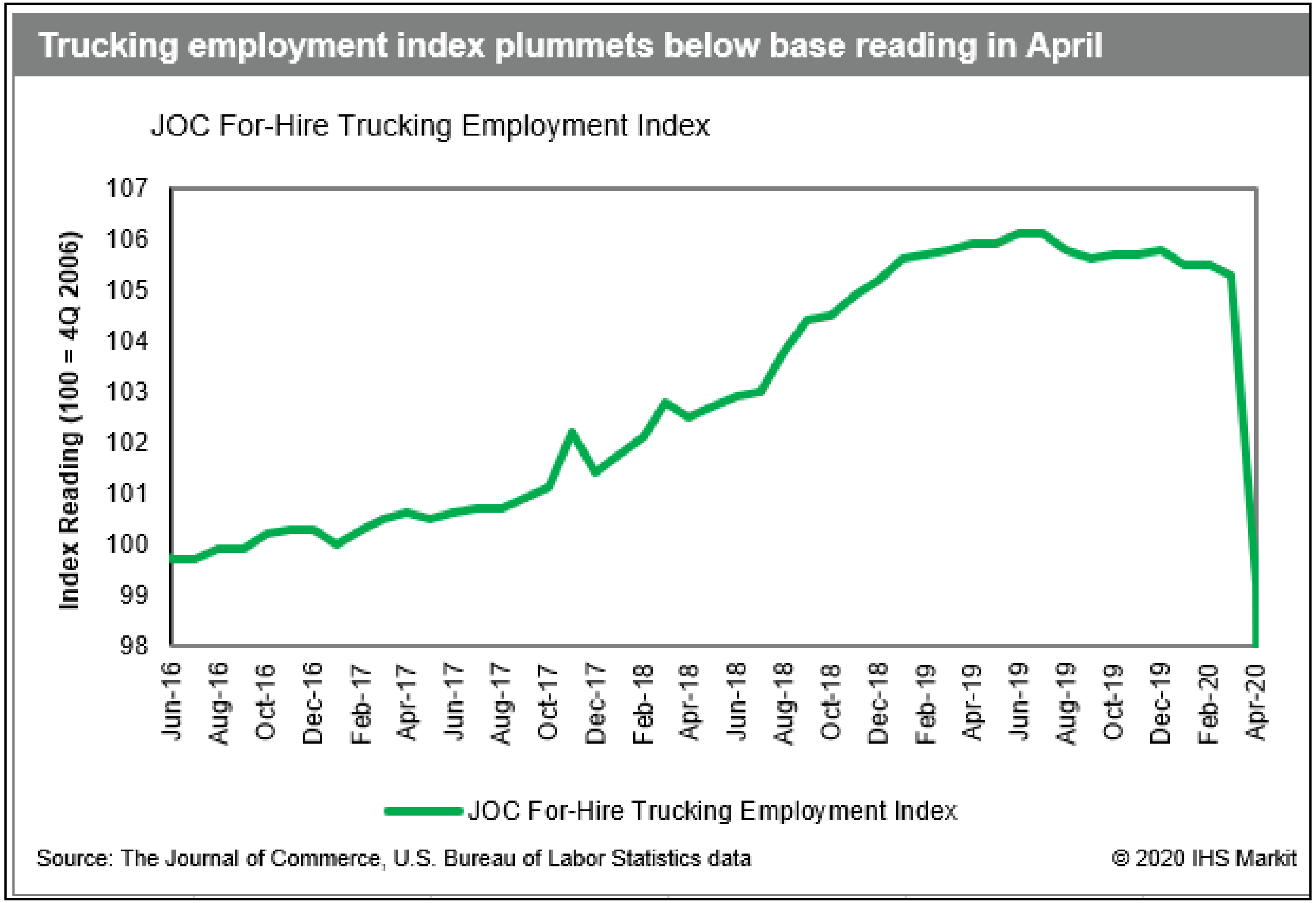
Trucking Outlook

- For-hire trucking companies lost more than 88,000 jobs in April, a 5.8 percent drop in employment from March and a 6.2 percent year-over-year decline.

- Payrolls at the truckload and less-than-truckload (LTL) carriers tracked by the BLS included more than 1.4 million workers.

- How quickly those 88,000 workers; drivers, dockworkers, and other employee can be rehired will affect the ability of shippers to restart and reconnect supply chains suspended during the economic shutdown sparked by COVID-19



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Trucking Outlook

- Recovery for global economies and North America's commercial-vehicle demand should begin in 2021, which is being forecast as the transition year as economies move from COVID-19's negative impacts into a meaningfully better situation in 2022.
- The heavy Class 8 and trailer markets are seeing falling orders, rising cancellations, and backlogs getting pushed to later build dates.
- When the economy ultimately rebounds, accessible capacity is likely to be short, leading to strong rebounds in freight rates, carrier profitability and ultimately unsated vehicle replacement demand.
- "History shows that even from the lowest lows, the manufacturers can't snap their collective fingers and bring production up immediately. Returning to normalized production levels is a process that is hard to rush. Coupling an otherwise structurally sound pre-COVID economy, with strong governmental support and rising pent-up demand, there is a case for the economy to rebound into 2021", Kenny Vieth, ACT's president.

Source: ACT Research

COVID-19 Fuels Shift Toward Short-haul Trucking

- The US trucking business is becoming more short-haul-oriented.
- Capacity and freight demand shifting away from longer-haul, one-way truck lanes as the COVID-19 pandemic and recession reshape the transportation landscape.
- The length of trips taken by US trucks has diminished considerably, according to a survey by the American Transportation Research Institute and the Owner-Operator Independent Drivers Association.
- The survey provides evidence of a widely perceived shift toward local trucking as long-haul demand vanished in April.

COVID-19 Fuels Shift Toward Short-haul Trucking

The nearly 5,100 respondents to the joint ATRI-OOIDA survey indicated:

- Their number of local trips under 100 miles more than doubled in March and early April
- Rising from 7.8 percent of their total trips before the pandemic to 18.2 percent during the pandemic.

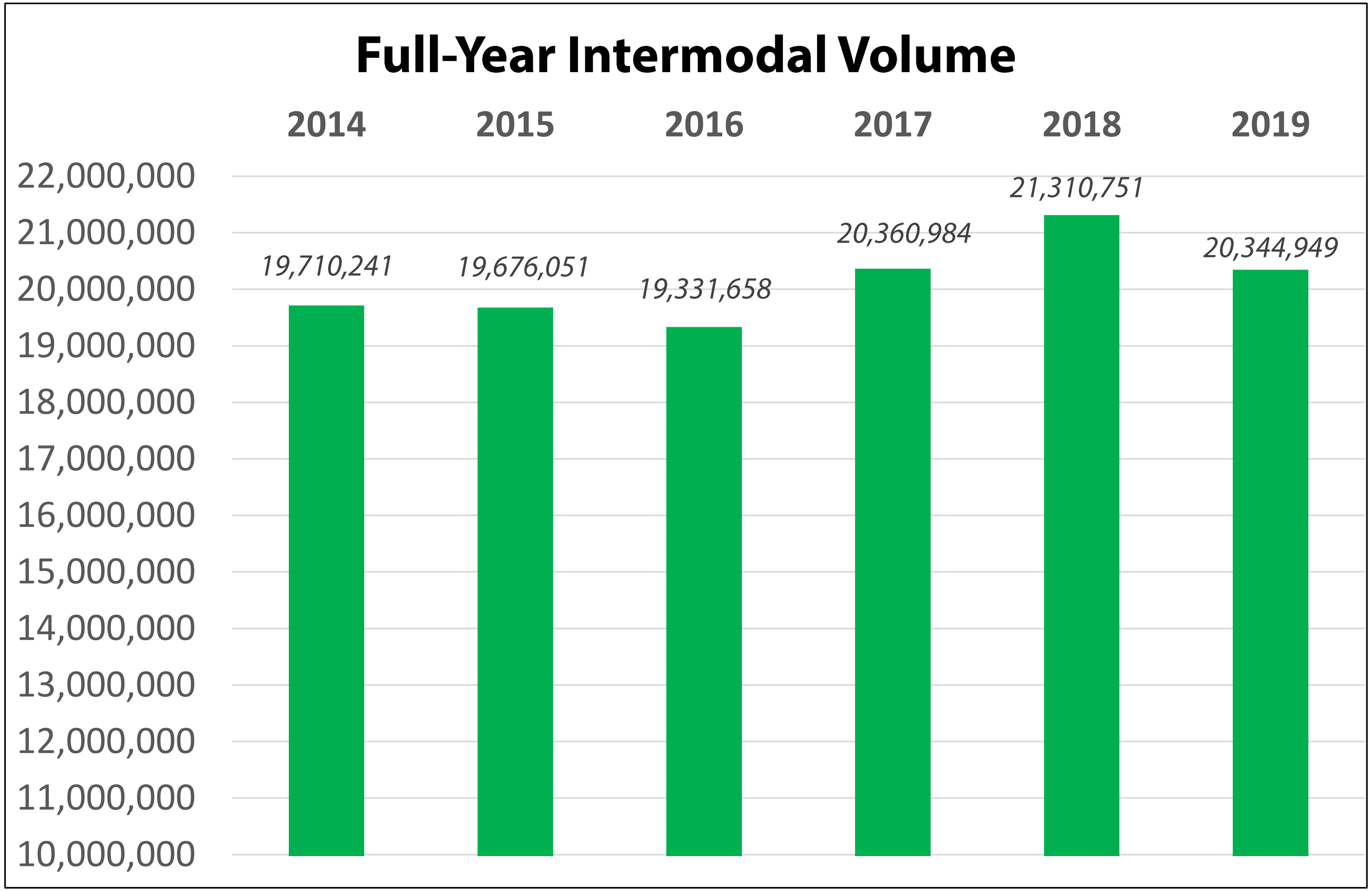
At the same time, the number of long-haul trips of more than 1,000 miles:

- Dropped by 10 percentage points to 22.7 percent once the COVID-19 shuttered businesses nationwide.
- Four of the top five lanes by volume for 53-foot dry van trailers are less than 100 miles.

Intermodal Outlook

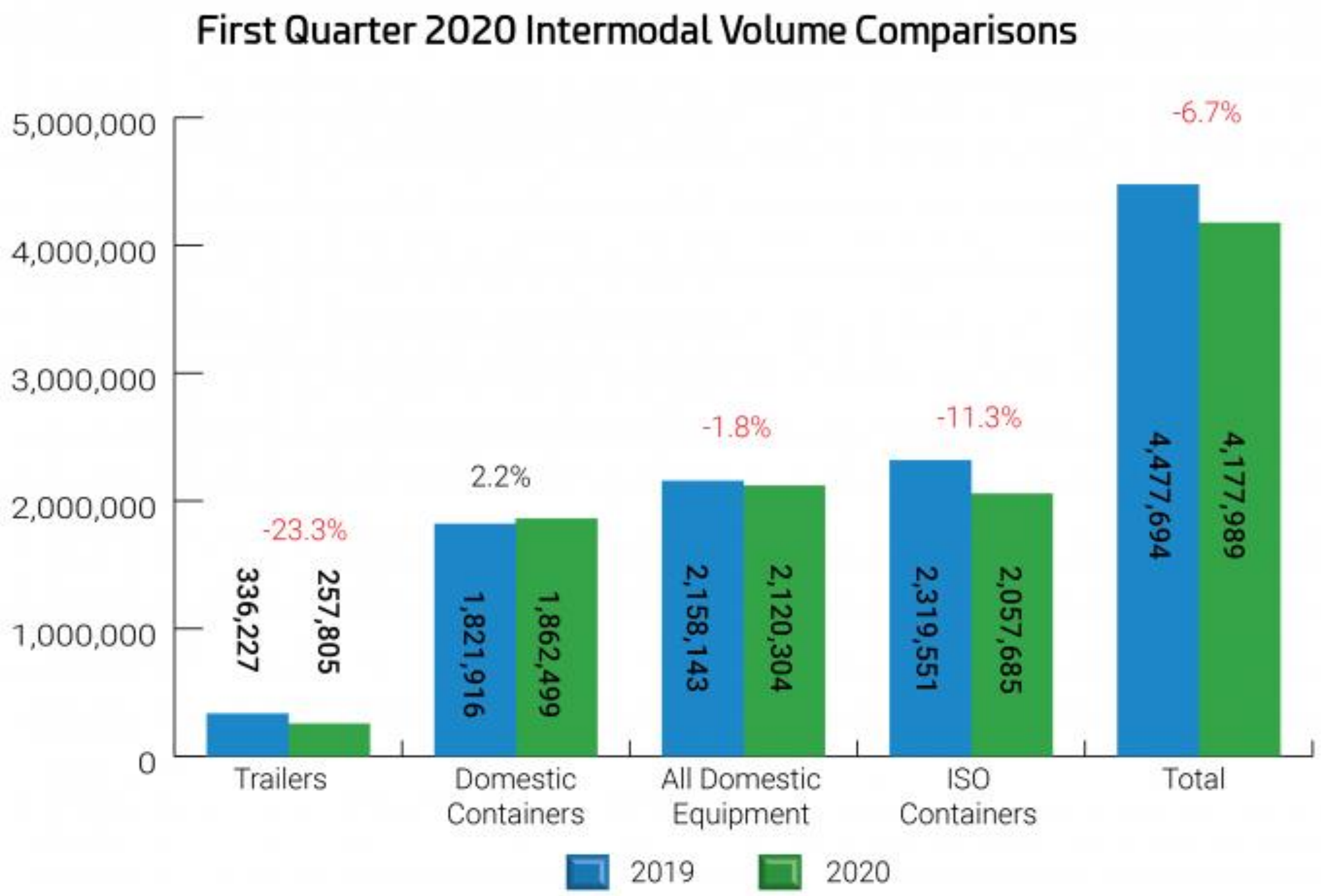
- Total intermodal volumes declined 6.7 percent year-over-year in the first quarter of 2020.
- Domestic containers gained 2.2 percent from 2019
- International shipments dropped 11.3 percent and trailers, 23.3 percent.
- "The coronavirus is the obvious headwind going into Q2, on top of existing trade issues, and no market segment is immune," said Joni Casey, president and CEO of IANA. "We don't know how long volumes will remain where they are, and recovery will bring its own set of challenges."

Intermodal volume enters 2020 at a three-year low



Logistics and Transportation

Source: Association of American Railroads


First Quarter 2020 Intermodal Volume Comparisons
5,000,000
4,000,000
3,000,000
2,000,000
1,000,000
0
-23.3%
336,227
257,805
2.2%
1,821,916
1,862,499
-1.8%
2,158,143
2,120,304
-11.3%
2,319,551
2,057,685
-6.7%
4,477,694
4,177,989
Trailers
Domestic Containers
All Domestic Equipment
ISO Containers
Total
2019
2020

BRETT M. MEARS

President

Palmer Logistics

Background / Frame of Reference

- Texas-based 3PL operating 3 Million ft2 across 14 facilities in Houston & Dallas; B2B
- Diversified >>> 2% revenue drop
- 135 Customers: Largest segments are Chemical, Food, Bldg Materials, Industrial Goods
- Immediate Past Chairman of our Industry Association – International Warehouse Logistics Association

Covid-19 Warehouse Experience

- Almost 100% “Essential Workers” – no shutdowns
- Workforce reliability a concern in harder hit areas
- Chinese imports went off a cliff in February and most of March
- Fortune 500s were extremely concerned with SC reliability and contingency planning (ongoing trend)
- Imperative to have good plans in place to keep things moving (COVID-19 positive)

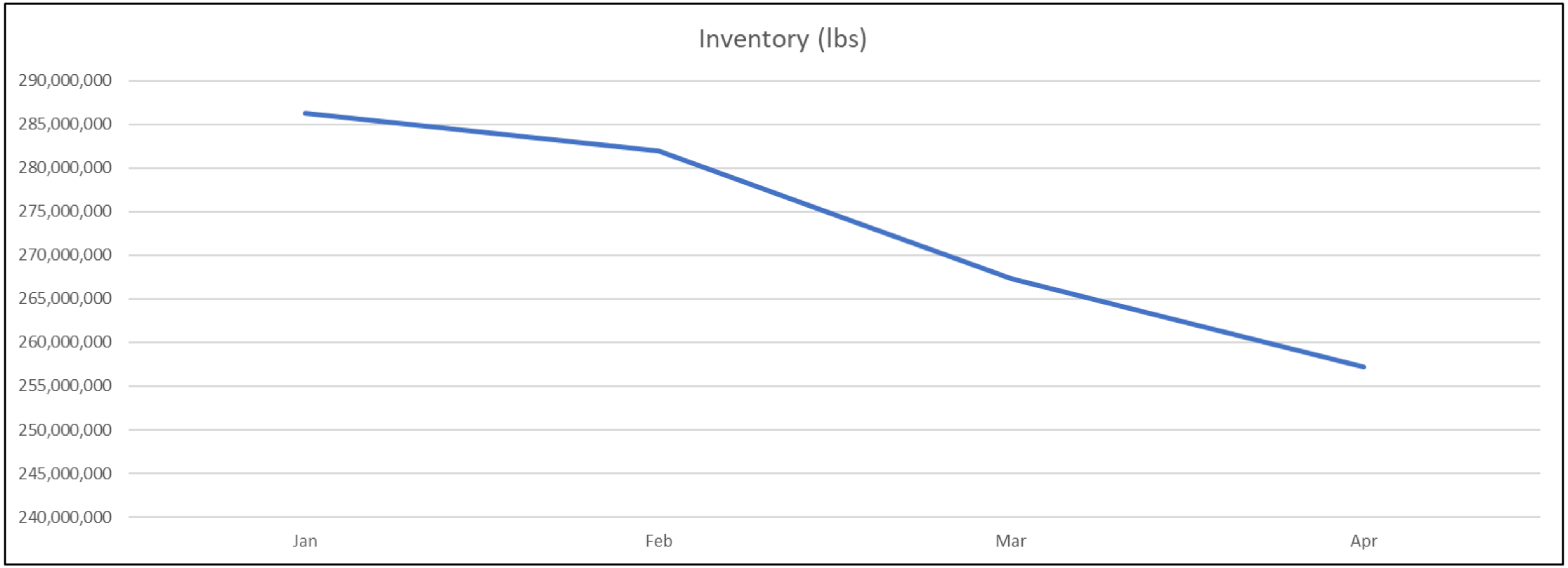
Covid-19 Warehouse Experience

- Clear winners & losers in industry
- Winners: Grocery, eCommerce, Medical Supplies, Technology
- Losers: Traditional Retail, Food Service, Oil & Gas, Travel & Hospitality
- Winners are paying "hero pay" and offering 3PLs bonuses to handle volume increases in excess of 30%; "Best Year Ever"
- Losers are asking for price reductions, extended terms, or closing operations/considering bankruptcy

Near Term Response/Expectation

- During a recession, warehouse industry usually lags the economy. Slower to feel the impact as inventories usually grow (more space related revenue) as demand drops and manufacturing is slow to respond. Then usually slower to recover as demand increases but inventory is low (hard to cover fixed space cost). Heavy import supply chains may not reflect this due to earlier disruption/blank sailings = already lower inventories
- Short term space demand for clear cut winners and for industries slow to respond to reduced demand (Grocery example – 6-12 months)
- Preservation of capital – expect lease renegotiation, deferral, little to no capital investment
- Aversion to additional risk – major decisions put on hold (Chemical example)

Inventory Trend



Longer Term Response/Expectation

- America is a consumer driven economy ~ 70%; historic unemployment will yield a significant recession and economic hardship.
- People will underestimate the impact and that will make the pain feel even worse
- Companies will hoard cash by cutting cost & eliminating capital spending
- Companies will look to maximize flexibility and defer LT decisions
- Fewer deals unless there are big $ savings realized

Longer Term Response/Expectation

- In 2008, average revenue drop was ~10% for 3PLs, expect slightly worse this time around
- Two major shifts already underway were significantly accelerated:
  - Shift to eCommerce hastening demise of traditional retail (Shipt example)
  - Shift to onshoring away from globalism
- Demise of America was premature – $3 trillion stimulus (15% of GDP or 300% of 2019 deficit) was funded by debt yet the dollar has only strengthened – world knows US is safest bet
- Our trading relationship with Mexico will become increasingly more important – they are a consumer economy like the US

Longer Term Response/Expectation

- Onshoring will lead to more manufacturing in pro-business US states and industrial RE will be needed to support
- Like 9/11 changed travel, COVID-19 will have lasting changes
  - Trend toward urbanization will likely reverse
  - Travel, in-person meetings will be fewer
  - Greater reliance on technology & automation
  - Temperature scanning
  - Greater emphasis on health care
  - I am selling "globalization"; trend towards self-sustainability
  - Absent steady growth, China will face significant challenges

Good News

- COVID-19 & resulting economic recession present an opportunity
- Don't be discouraged >>> seize the opportunity
- Think creatively to deliver new and improved value
- Position yourself and your customers to win when inevitable return to prosperity occurs

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Q&A

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