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CELEBRATING 55 YEARS

Nahigian and Reilly speak at CBA breakfast program

November 11, 2010 - Spotlights

Boston's Commercial Brokers Association held its first fall CBA Breakfast Program entitled The Impact of Logistics and Chain Supply Services on Industrial Users and Brokerage on Thursday, Sept. 30, 2010 from 8-10 a.m. The program attracted over 30 industrial practitioners at CBA conference center. The program was moderated by Rob Nahigian, SIOR of Auburndale Realty and included a panel of speakers including Chuck Reilly, vice president of Dacon, an SIOR corporate member. The other panelists included Peter Brown, leasing director, Campanelli Co.; Patricia Byrne, manager of regional development, CSX; and Lowell Richards, III, chief development officer, Massport. The program was sponsored by KBS Realty Advisors.

Nahigian began the program with the SIR (prior to SIOR) Industrial Real Estate Edition definition of industrial real estate and the SIR General Rules for Site Selection. He took the position of the industrial end-user to explain how the narrow profit spreads for industrial companies transforms real estate evaluation from rent to other metrics. His discussion included logistic costs, inventory costs, stack costs, return on capital, balance sheet impact and varying cost metrics. Such metrics might include:

1. Cost per time/minute/hour of equipment operations or production
2. Cost per downtime
3. Location radius cost for existing customer base and 5-year plan for new customers
4. Cost per mile to supplier
5. Cost per mile to customer base
6. Cost per cubic foot of space
7. Cost/revenues per truck customer delivery stops
8. Number/revenue stops per truck per day per route

Nahigian expanded the conversation to discuss how rent and rent per s/f is not always as relevant to an industrial user. To understand other costs that are used in the real estate evaluation by an end-user, a panel of experts presented different aspects of logistics, site and building issues.

The first panelist was Pat Bryne of CSX and she covered the rail services, costs and The Rail Renaissance. CSX has 12 short-line railroad partners in Massachusetts. Bulk transfer is a critical component for CSX. Each freight car represents 3.5-4 trucks per car. The average freight train represents 280 trucks. She works to understand the customer's business, market, plant inputs, layout, traffic volume and to create a value matrix for each site.

She explained that The Rail Renaissance starts with marketplace drivers such a Global Trade (global economies double by 2020); population (growth drives more consumption; shifts to southeast); environment (rail is more environmentally friendly and reduces carbon emissions); competition (highways have a great deal of vehicle competition and rail is more fluid.); and regulations (deregulation has been a spark for rail). One ton of freight can move 436 miles on one

gallon of fuel, and is three or more times more fuel efficient. She stated that The Rail Renaissance will continue through 2020 as demand is forecasted to be up by over 40%.

Lowell Richards, III, chief development officer of Massport, then discussed logistics by air, boat and trucks. He stated that most truck drivers do not prefer to be long-haul drivers and prefer to stay close to home. If rail is used and if rail returns to the West Coast then there isn't adequate rail corridor to bring it back to the east coast after reaching Chicago. Therefore the Panama Canal is used. He stated that the Newark area is the hub for shipping but it's becoming too expensive because the N.J Tpke. is maxed out and truckers sit in long traffic jams after loading cargo freight from the Port of N.J.

If a product is made in China then the Panama Canal is the way to the east coast and Boston becomes the furthest costly distance. If product is shifted to S. Asia, then the Suez Canal is easier and Boston is the first stop in the U.S. The travel time is 6-7 days to deliver to Boston. He is starting to see shipping from S. Asia that could add business to the Boston port. Only 20% of the container business comes to Boston now and 80% to Norfolk, Baltimore, N.J., Savannah, etc. Boston's harbor is 45' deep and ships need 50-52' depth. In terms of cargo freight, Boston sees key cargos (14 million tons/year) and includes: petroleum products, road salt, scrap metal, seafood (key local product), footwear and clothing, furniture and beer and wine.

Lowell reviewed Massport's Strategic Vision to:

1. Increase the amount of foreign and domestic water-borne commerce (primarily containers) through the Port of Boston
2. Develop facilities and supporting access infrastructure
3. Offer timely and reliable delivery of goods to local markets

For the harbor, Massport has conducted berth dredging and reconstruction; capacity improvement program; the purchase of adjacent 30-acre former Coastal Oil terminal; and has planning underway for dedicated haul road and buffer zone. The Army Corps of Engineers, partnered with Massport, and removed more than 4 million cubic yards of sediment since 1998. The next channel deepening project is in feasibility and permitting.

In terms of air freight, Lowell stated that JFK Airport is the 500 lb. gorilla and that no one in the northeast is going to compete with JFK on international freight. Boston's air cargo focuses on facilitating the delivery of time-sensitive local industry products such as pharmaceuticals, high-tech, medical equipment, aircraft parts, and perishables. The significant decrease in mail product can be explained by the increasing use of electronic communication media.

In summary, Lowell stated the following air cargo industry trends:

* The decrease in the amount of express/small packages results from the increasing reliance of the domestic integrators on trucks to move these products.
* The decrease in belly cargo has resulted from the increasing reliance of domestic carriers on integrators to deliver small packages and the reduction of wide-body aircraft in the domestic airline fleet.
* An airport's ability to accommodate air cargo is critical to securing new international service because cargo contributes to an airline's profitability.

Peter Brown, leasing director, Campanelli Co. used case studies of Preferred Freezer and Bimbo Bakeries as examples of new construction and industrial technologies. He also played a YouTube video on an example of robotic industrial distribution. It is a futuristic video of a company in Woburn, Kiva Systems, that has revolutionized robotic warehousing. Other robotic discussions included:

1. Robotics in warehouse buildings:
2. Automated case picking systems & fulfillment operations
3. Warehouse robotics jargon
4. The impact of industrial fobotics on the working world

Chuck Reilly of Dacon then concluded the program with examples of new industrial construction and construction costs. He noted a number of firms that have vacated Massachusetts due to lack of distribution space or mergers and some that have relocated within Massachusetts. Reilly discussed the impediments to growth such as Newbies, modern distribution centers v. old centers, logistical hubs, fire corridors and technology, hi-bays, slabs, loading dock issues and general specs on HVAC, lighting and material handling. Reilly stated that New England is not a player in national logistics. New Jersey/Pennsylvania are the national hubs and the logistic world stops at the New Jersey Tpke. This area does not have an abundance of 50+ acres needed in key locations for logistic hubs. Reilly sees logistics technology needing the specialized components. Below is a sample of his presentation.

Typical Warehouse/Distribution Building Components:

Site Requirements

* New dock area width - 150' minimum

Exterior Facades

* 2", 4", 6" Kynar freezer panels
* Horizontal metal panel

Building Code Impediments

* Maximum travel distance to egress - 500'
* Maximum distance to lavatories
* MFL walls
* Foam-related storage issues

Typical Warehouse/Distribution Building Components:

* Shrinking Compensation Slab - no control joints
* EPDM Roof 0.60 Min.
* Slabs - FF Min. 100 versus FF Min. 46
* Large loading dock area bay spacing 60' preference
* Maximum Trailer - 13'-6" high, 102" wide
* Dock Leveler, 30,000 lbs., hydraulic lift (Rite Hite, Kelly, Serco)
* Lighting: T5, T8

As one attendee stated at the end of the program: "New England is considered the Pawtucket of the industrial world in the U.S. This area is just not on the radar screen for major industrial users at this point. But there are plans to progress forward."