Role of Industrial Real Estate Development and Supply Chain Management

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The Role of Industrial Real Estate Development and Supply Chain Management

- About IDI
- Developer’s view of Industrial Real Estate
- Predicting Supply and Demand
- Developing a Building
- Developing a Business Park
- Case Study: Shawnee Ridge
500 Facilities Developed
- 68 markets in U.S., Canada and Mexico
- 50,000 SF to 1,300,000 SF
- Light Manufacturing, Flex, R&D, Cross-dock
- 74 completed GA facilities totaling 16.8MSF
- 5MSF of LEED-certified space

$6+ Billion in Developed Assets
- Master Planned Business Parks (40+)
- Inventory Development (10MSF Annually)
- Build-to-Suits
- Acquisition
- Turnkey Development Management Services

Focus on Total Client Satisfaction
- Highest rate of repeat clients in the industry
- Total team Integration with corporate partners
- First 2-time winner of Site Selection Magazine’s William Dorsey Client Partnering award
## Tenants from All Major Industries

### Medical / Healthcare
- AmerisourceBergen (10)
- McKesson (4)
- Watson Pharmaceuticals (3)
- Owens & Minor (3)
- CVS Caremark (2)
- Smiths Medical (2)
- PSS World Medical (2)
- Amylin Pharmaceuticals (2)
- Covidien / Tyco (2)
- sanofi-aventis (2)
- UPS Healthcare Logistics
- Rockwell Medical
- Phillips Medical System
- Herbalife
- Sola International
- Nioxin Laboratories

### Retail / Direct-Consumer
- Wal-Mart (6)
- The Home Depot (12)
- Amazon.com (2)
- The Gap (3)
- Office Depot (5)
- CarMax (88)
- OfficeMax (2)
- Sally Beauty Supply (4)
- Petco (3)
- CarQuest (4)
- The Pampered Chef (2)

### Transportation / 3PL
- UPS Supply Chain Solutions (16)
- Kuehne + Nagel (6)
- Menlo Logistics (6)
- FedEx (5)
- Exel Logistics (5)
- APL Logistics (3)
- CEVA Logistics (3)
- Atomic Box Logistics (2)
- Ozburn-Hessey Logistics (2)
- Dart Logistics
- Maersk Logistics

### Energy/Building Products
- Graybar Electric (2)
- Trane (2)
- Carrier
- Square D
- HK Systems
- HD Supply
- Tyco

### Consumer Product
- Sony (4)
- Alberto Culver (3)
- Nike (3)
- Dial Corp. (2)
- Pampered Chef (2)
- Black & Decker (2)
- Newell Rubbermaid
- Colgate-Palmolive
- Kraft Foods
- American Express
- Panasonic
- Sara Lee
- Asics
- Mizuno

Partial listing of IDI projects. Multiple locations indicated in parentheses.
This is not investment advice.

We are just economic philosophers.
Economic Prediction About the Future (Buy Low/Sell High)

Evaluate Risks

The right team - Who does what?

Understanding Supply and Demand
Real Estate Investment Risks

- Highest Risk (Uncertainty) usually has highest reward

- Core Investment – Buying Existing Asset - Safest
  - Long term leases to good credit tenants
  - Established market
  - Traditional design features

- Speculative Development is Riskiest
  - Empty land > Hopefully occupied building
  - First Rents 2 to 3 years after investment decision
Real Estate Risks

- Development/Construction Risk
- Leasing Risk
- Capital Market Risk
Industrial Supply and Demand
US Modern Logistics Space

Source: IDI Research, CBRE-EA. All Industrial through 4q10.
Light Industrial
Highly Correlated to Overall Economy

DJIA vs. Light Industrial Demand

Sources: IDI Research; CBRE-EA, Yahoo! Finance
Mitigate Risks

- Best Team
  - Right leadership
  - Architect, Engineers, Contractors

- Understanding the Market
  - Its Logistics and the Supply Chain
Tenant – Occupies space pays “rent” thru either direct monthly rental payment to landlord or as a cost of capital if building is owned by tenant

Landlord – Building Owner / Investor
• Large institutional investors
  • pension funds sovereign wealth, university endowment
• Real Estate Operating Company and REITs
• Private Investors
• Often held in complicated partnerships and trusts

Developer – Coordinate the activities that convert ideas on paper into real property. Development, is a multifaceted business, encompassing activities that range from the renovation and re-lease of existing buildings to the purchase of raw land and the sale of improved land or parcels.
Government – Regulates land use and approves design including variances. Also critical in awarding tax incentives and administering municipal infrastructure. Numerous departments and levels – primarily local, but also state and federal.

Attorneys – Documents purchase & sale, land use and lease agreements, also title review.

Architect & Engineers – Design site and facilities.

General Contractor – Coordinates construction activities.

Banker – Provides construction /development financing as well as long term debt.

Investor - Provides equity investment typically 20 to 50% of project cost.

Brokers - Paid a fee to represent tenants or landlords.

Property Management - Collects rent, complying with laws and regulations, and maintaining the property on behalf of the property owner.
Understanding the Market

Logistics is Getting Stuff From There...
310 M People across 6M square miles
Efficient Design & Location
Takes Cost & Time Out of Supply Chain
Logistics is Balancing Service Levels with Cost Drivers

Source: Establish Inc., Herbert W. Davis and Company, Grubb and Ellis
Efficiency to supply chain management - time / cost

Leverages logistics infrastructure

To Serve the Population Centers
  - Local, Regional, National
  - Industrial and Consumer Products
  - Factories, stores, distribution centers or households
Superior Logistics Infrastructure Drives (Floats) Demand For Modern Logistics
Challenges to the Trucking Industry
Gas Prices and Aging Drivers

US Average Diesel Price

- $0.00
- $1.00
- $2.00
- $3.00
- $4.00
- $5.00
- $6.00

## IDI Focus Market Matrix

<table>
<thead>
<tr>
<th>Markets*</th>
<th>Super Regional</th>
<th>Logistics Infrastructure</th>
<th>Highly Constrained</th>
<th>Regional Plus</th>
<th>Large Stabilized</th>
<th>Less Attractive **</th>
</tr>
</thead>
</table>
| • Inland Empire  
• Dallas / Fort Worth  
• Chicago  
• Atlanta  
• NJ Turnpike / Lehigh Valley | • Cincinnati  
• Indianapolis  
• Columbus OH  
• Louisville  
• Memphis  
• Houston  
• South East Ports  
• I-81 PA | • South Florida  
• Seattle  
• San Diego | • Northern California  
• Phoenix  
• Las Vegas  
• Salt Lake  
• Denver  
• Kansas City  
• St. Louis  
• Nashville  
• Charlotte  
• Central FL | • Los Angeles  
• Baltimore / Washington  
• Philadelphia  
• New York Metro /Northern New Jersey | | • Detroit  
• Cleveland  
• Boston  
• Minneapolis  
• Portland  
• Everything else |

### Market Attributes

**Super Regional**
- Largest Modern Markets >500MSF
- Best located to serves regional population base- 5 DC National Model
- Deep Institutional Capital

**Logistics Infrastructure**
- Large Modern Market
- Superior Logistics Infrastructure – port, rail, air freight
- Higher Yielding but stable

**Highly Constrained**
- Isolated population base
- Very High barriers to entry
- Excellent Institutional investor appetite

**Regional Plus**
- Smaller Modern Market
- Dependent on local economy
- More volatile returns

**Large Stabilized**
- Large total industrial but small modern industrial
- Long term growth rates less than US average < 1.05%.
- Pay for proximity, but large tenants subject to leap frog out to hinterland

**Less Attractive**
- Low demand for modern logistics
- Misaligned verses national distribution models
- Declining interest by institutional investors

### US Modern Logistics

<table>
<thead>
<tr>
<th></th>
<th>44%</th>
<th>20%</th>
<th>6%</th>
<th>19%</th>
<th>9%</th>
<th>3%</th>
</tr>
</thead>
</table>

### US Total Industrial

|                  | 23%  | 11%  | 6%    | 19%  | 18%  | 24%  |
Focus Market Classification

- Super Regional
- Logistics Infrastructure
- Highly Constrained
- Regional Plus
- Large Stabilized
- Other

Market Size (Modern Logistics)

- 20 MSF
- 40 MSF
- 100 MSF
- 200 MSF

Source: CBRE-EA, IDI Research
Focus Market Classification

Market Size (Modern Logistics)

- Super Regional: 20 MSF
- Logistics Infrastructure: 40 MSF
- Highly Constrained: 100 MSF
- Regional Plus: 200 MSF
- Other

Source: CBRE-EA, IDI Research
E-Commerce
Mapping the Amazon - 180 Mile Drive Radius
• Goal is to sign a lease with tenant or tenants

• Generate a stream of future (predictable) rent payments

• Either:
  • Collect rent payments over time

• Sell the cash flowing asset to an investor
• 2/3 of industrial space users in US lease vs. own.

• Reasons to lease:
  • Invest capital in primary business not real estate
  • Flexibility to adapt to changing business needs
  • Off-balance sheet for financial reporting
  • Simple Economics - DCF

• Reasons to own:
  • Want to control strategic assets
  • RE Returns higher than core business
  • Simple Economics – DCF
  • Sometimes emotional
Real Estate Math: How does a developer make a profit?

- Speculative – “Inventory”
  - Construct a building empty and lease it up

- Build to Suit
  - Construct a building for a specific user.
  - Developer finances – short and long term

- Build to Own / Fee Development
  - Construct a building for a specific user.
  - Tenant owns & finances
  - Sell land sites to users / other developers

- Acquire Existing Buildings
> Raise capital
  > Identify a target market
    > Evaluate potential sites / Due Diligence
      > Negotiate land purchase
        > Design building
          > Permitting & Approval
            > Infrastructure & Offsites
              > Bid & Manage construction
                > Market to users thru brokers

Wait and Hope!!!
What Size Building to Build
Market Segments

Super Bulk
Home Depot 657,000 SF

Williams-Sonoma 1,350,000 SF

Light Industrial

Bulk Distribution
Design is Critical to Success

South Brunswick, NJ
Exit 8A - New Jersey Turnpike
Within 30 miles of NY/NJ Ports
- 1,350,000 SF
- 36’ Clear
- Cross-dock design
- Completed in December 2006
- Available for Immediate Occupancy

Business Park Overview:
- 1,351,200 SQUARE FEET
- 134 Loading Doors
- Drive-In Doors
- 147 Trailers
- 233 Cars
- 104 Car Parking Spaces
- 2 Story Office
- 120,000 SF Office
- Covered Walkway
- Detention Area
- Middlesex Center Boulevard
- Drive-In Door
- Chain Link Fence
- Truck Drive
- Utility Easement
- Setback / Utility Easement
Modern Logistics Space Design Features

- Sizes – 50,000 SF to 1,000,000 SF
- Height - 28’ to 36’+
- Depth – 120’ to 650’
- Construction
  - Wall type precast or tilt-up)
  - Roof & column & bay spacing
- Loading - cross-docking, door count
- Trailer and auto parking
  - Impact GLA – gross leasable area
- Expansion

MAXIMUM FLEXIBILITY TO MEET CHANGING MARKET DEMAND
Real Estate Math: Building Development Costs

<table>
<thead>
<tr>
<th>Cost Item</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raw Land Cost</td>
<td>$5.00 / BSF</td>
</tr>
<tr>
<td>Site Improvement Cost</td>
<td>$5.00 / BSF</td>
</tr>
<tr>
<td>Base Building Cost</td>
<td>$20.00 / BSF</td>
</tr>
<tr>
<td>Tenant Improvements (TI)</td>
<td>$5.00 / BSF</td>
</tr>
<tr>
<td>Design, Permits &amp; Soft Costs</td>
<td>$4.00 / BSF</td>
</tr>
<tr>
<td>Interest Expense</td>
<td>$2.00 / BSF</td>
</tr>
<tr>
<td>Leasing Commissions</td>
<td>$2.00 / BSF</td>
</tr>
<tr>
<td>Total Cost</td>
<td>$43.00 / BSF</td>
</tr>
</tbody>
</table>
Total Cost per Square Foot $43.00

Building Size X 300,000 / SF

Total Investment $12,900,000

Assume: Lease to 3 tenants over 24 months

<table>
<thead>
<tr>
<th>Size</th>
<th>Ann. Rent</th>
</tr>
</thead>
<tbody>
<tr>
<td>50,000</td>
<td>$4.50 / SF</td>
</tr>
<tr>
<td>200,000</td>
<td>$4.00 / SF</td>
</tr>
<tr>
<td>50,000</td>
<td>$4.50 / SF</td>
</tr>
<tr>
<td>300,000</td>
<td>avg.$4.17/SF</td>
</tr>
</tbody>
</table>

or $1,250,000 / Year
Real Estate Math: Hold or Sell

Total Rent ($4.17) $1,250,000
Total Investment $12,900,000

Total Yield 9.7%

Option to Add Leverage and Collect Rent or Sell to Investor

Rent (NOI) $4.17
Cap Rate 9%
Sale Price/SF $46.30
Less Cost ($43.00)
Profit $3.30 \times 300,000 \text{ SF} = $990,000
<table>
<thead>
<tr>
<th>Cap Rate</th>
<th>Sales Price</th>
<th>Cost</th>
<th>Profit/SF</th>
<th>Profit</th>
<th>Margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>8%</td>
<td>$ 52.08</td>
<td>$ (43.00)</td>
<td>$ 9.08</td>
<td>$ 2,725,000</td>
<td>21%</td>
</tr>
<tr>
<td>9%</td>
<td>$ 46.30</td>
<td>$ (43.00)</td>
<td>$ 3.30</td>
<td>$ 990,000</td>
<td>8%</td>
</tr>
<tr>
<td>10%</td>
<td>$ 41.67</td>
<td>$ (43.00)</td>
<td>$ (1.33)</td>
<td>$ (400,000)</td>
<td>-3%</td>
</tr>
</tbody>
</table>
US Industrial Cap Rates

Source: IDI Research, Real Capital Analytics
Developing an Industrial Park

• Much longer term investment
  • Spec building is 2 to 3 years before stabilized
  • Industrial park is 10+ years

• Vacant Land does not cash flow

• Returns are more volatile but can double or triple investment

• Usually much more political involvement than single building
  • Infrastructure
  • Taxes & Incentives
### Future Demand and Competition
- Tenants need - Now and in the future
- Competition - Now and into the future
- Investor Demand – Now and into the future

### Minimize Transportation Costs
- Proximity to Customers
- Proximity to Suppliers
- Logistics Infrastructure
  - Interstate airfreight, intermodal, port

### Economics
- Raw Land Price
- Finished Land price
  - Net of grading & infrastructure investment
- Rent ratio

### Site Specific Factors
- Access – now and future
- Large enough sites and right configuration
- Available utilities: sewer is biggest constraint
- Soils / Geotechnical / Environmental features
- Permitting & Approval Hurdles
- Labor Availability
- Community / Quality of Life

### Taxes & Incentives
- Minimize tax burden on tenants
- Limit “surprise” Impact Fees
- Grants and Community Contributions for infrastructure
- Primary concern relative burden vs. competitive sites or states
Distinct and separate entrances
Prominent Signage
Wide well-maintained road systems throughout the park
Landscaping and street lighting
Adequate, reliable utilities including public sewer, dual water and power
Compatible land uses within the park
Individual sites – range of sized 5 to 50+ acres
Land to expand or provide campus type development
Covenants to regulate the quality of future developments
Commercial and retail services in close proximity

GOAL IS MAXIMUM FLEXIBILITY TO MEET CHANGING MARKET DEMAND
Park West International: Cincinnati
Park West International: Cincinnati
13 Years from raw land to fully developed park
Hamilton Mill: Buford Georgia
## Real Estate Math: Land Estate Costs

### Land Assemblage (All cost 1,000 per Acre)

<table>
<thead>
<tr>
<th>Raw Land</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Site 1 100ac</td>
<td>$30</td>
</tr>
<tr>
<td>Site 2 50ac</td>
<td>$25</td>
</tr>
<tr>
<td>Site 3 50ac</td>
<td>$35</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td><strong>$30</strong></td>
</tr>
</tbody>
</table>

### Offsite

<table>
<thead>
<tr>
<th>Cost</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Road Improvement 1</td>
<td>$6</td>
</tr>
<tr>
<td>Street Light</td>
<td>$3.50</td>
</tr>
<tr>
<td>Fire Truck</td>
<td>$.50</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$10</strong></td>
</tr>
</tbody>
</table>

### Onsite

<table>
<thead>
<tr>
<th>Cost</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grading</td>
<td>$20</td>
</tr>
<tr>
<td>Storm Sewer</td>
<td>$5</td>
</tr>
<tr>
<td>Roads</td>
<td>$5</td>
</tr>
<tr>
<td>Signage / Landscape</td>
<td>$2</td>
</tr>
<tr>
<td>Utilities (Water/SS/Power/Gas)</td>
<td>$3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$35</strong></td>
</tr>
</tbody>
</table>

### Soft Costs

<table>
<thead>
<tr>
<th>Cost</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Design</td>
<td>$1</td>
</tr>
<tr>
<td>Legal</td>
<td>$1</td>
</tr>
<tr>
<td>Impact Fees/Permits</td>
<td>$2</td>
</tr>
<tr>
<td>Due Diligence</td>
<td>$.50</td>
</tr>
<tr>
<td>Consultants</td>
<td>$.50</td>
</tr>
<tr>
<td><strong>Total Soft</strong></td>
<td><strong>$5</strong></td>
</tr>
</tbody>
</table>

Total $80,000/Acre X 200 acres = $16,000,000
Assume 7 year development cycle at 10% Cost of Capital

Carrying Cost - Avg. 3.5 Yr X 10% X $80,000 = $28,000

Full basis $ 80,000 + $28,000 = $108,000 Acre

Carrying Costs Add 35% to basis
Case Study: Shawnee Ridge
Case Study: Shawnee Ridge

Location: City of Suwanee, Gwinnett County, Georgia
38 miles north of Atlanta on I-85

Size: 587 acres with 5,000,000 SF of industrial

Logistics: Interstate Access; Frontage on I-85

Investor:
1st - LJ Hooker – Australia - 1985
2nd – IDI / Kajima – Japan - 1989
    CIGNA / JV Partner
3rd – Cobalt Capital - 2009
Timeline:
1987  Land Development Started
1990 – 2006  43 projects constructed
2007  Last IDI Project Built
2009  Remaining projects sold – 9 / 1.7 MSF

Tenants:
Verizon  400,000 SF  AmerisourceBergen  94,960 SF
ITC Delta.com  380,000 SF  Mary Kay Inc.  135,050 SF
Systemax, Inc.  360,675 SF  McKesson Medical (2)  181,200 SF
Tech Data  275,000 SF  McKesson Surgical, Inc.  118,750 SF
NCR Corp (2 buildings)  316,340 SF  VWR Scientific  168,925 SF
Mitsubishi Electronics.  176,250 SF  APL Logistics  59,000 SF
Motorola  131,000 SF  FedEx  67,200 SF
Leica Geosystems, Inc.  67,200 SF  Home Depot  84,466 SF
Microwave Technologies  56,000 SF  Daewoo Machinery  94,962 SF
SIGMATEX  38,460 SF  Intelligent Systems  350,000 SF
American Cancer Society  86,041 SF  OfficeMax, Inc.  91,380 SF
Shawnee Ridge: Gwinnett County in 1978
Gwinnett County, Georgia Population Growth

Shawnee Ridge Begins

Shawnee Ridge Complete
Considerations for Investing

• Real Estate is International and Local Business
  • Understand local practices and customs
  • Choose a compatible local partner
  • Understand real estate markets

• Understand Legal, Political, and Economic System
  • Transparency and Private Property Rights
  • Land Title
  • Tax Laws
  • Ability to repatriate capital
  • Currency

• Tenants and Buildings
  • Understand your tenants (customers) and credit
  • Logistics technology
  • Building Practices
Focused exclusively on industrial real estate, IDI has spent the last 20 years successfully creating high-quality Class-A investments. No other fund manager can give you this depth of expertise in industrial real estate. Our in-house team provides investment management, site selection, construction, and leasing and management services with integrity and transparency from day one. Just ask any of our longstanding clients.

Or simply become one.

For sound investment opportunities, contact Sean Fitzsimmons.
404.479.4000 | www idi.com