



Emerging E-Commerce and its Impact on Industrial Real Estate

Curtis D. Spencer, President
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Agenda

- Key criteria – National site selectors
- Prime location attributes for E-Commerce Fulfillment Centers (ECFC)
- Locations not conducive to an ECFC
- Third-party logistics and transportation providers: FedEx and UPS solutions
- E-Commerce Business Trends
 - Global Reach
 - New Legislation

Key Criteria for National Site Selector

- Avoidance of Nexus Tax
- Proximity to major markets
 - Chattanooga is only 90 miles from Atlanta
- Inexpensive land
- Ample seasonal/surge labor pool
- Reasonable proximity/access to interstates
- Local incentives
 - tax breaks
 - FTZ

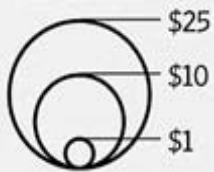
Mapping the Web | Amazon seeks to minimize sales-tax collection across the U.S.

Amazon designations*

- Bad states
- Neutral states
- Safe states

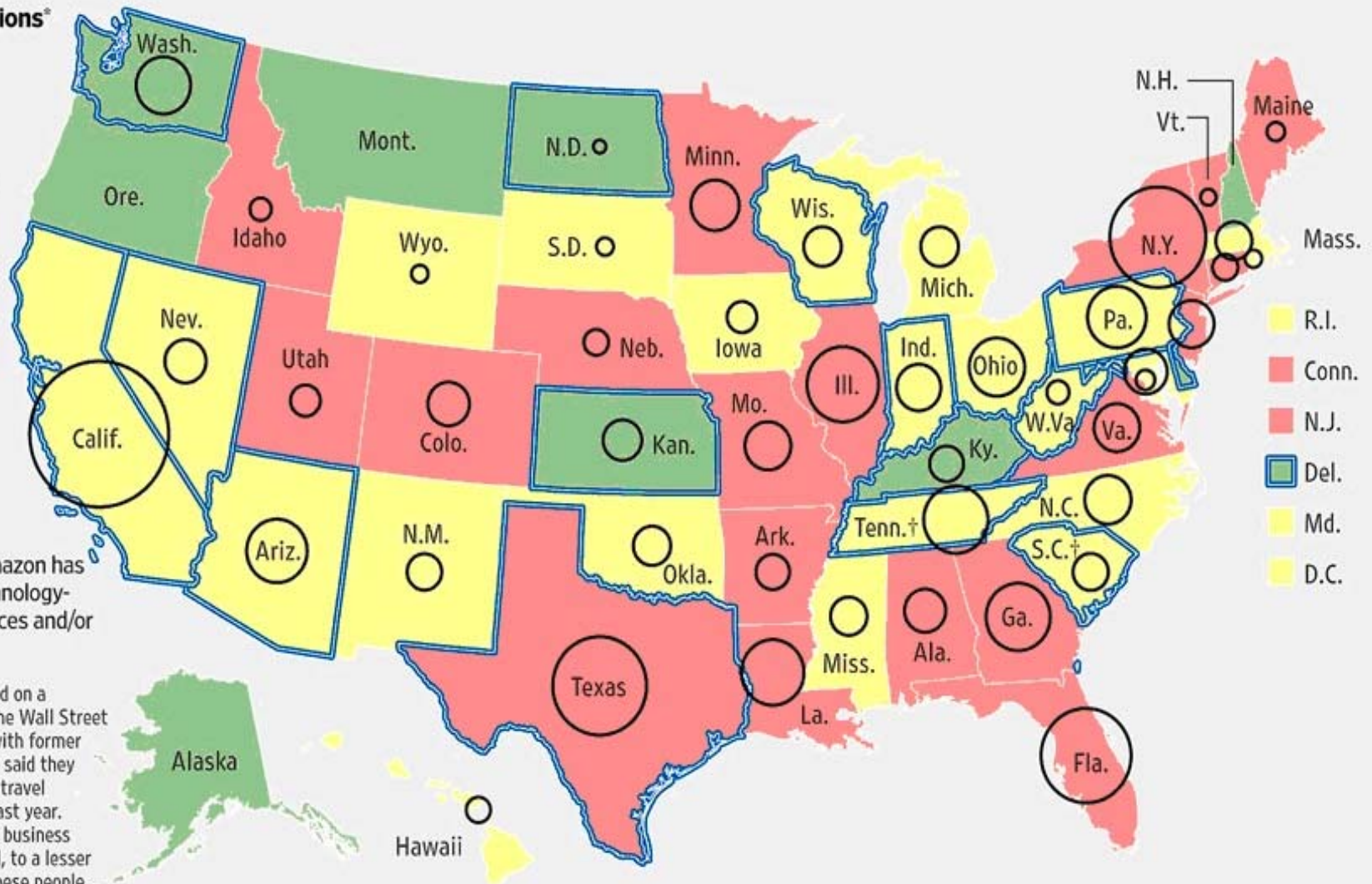
Lost tax revenue

Estimated amount of state and local taxes lost from e-commerce, 2007-12, in billions



- 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

State sales tax rates

No sales tax



Less than 5%



5% to 6%



More than 6%



'Amazon laws'

At least 10 states have passed 'Amazon laws' designed to make the company and other online retailers collect sales taxes. The laws vary by state.

Arkansas, Connecticut, Illinois, Vermont** (enacted 2011); **North Carolina, Rhode Island** (2009); **New York** (2008): Online retailers must collect sales taxes if they have online affiliates, or advertising partners, based in the state.

California (2011): Online retailers must collect sales taxes if they have online-advertising partners based in the state, or if they have a subsidiary that develops products for their retail operations.

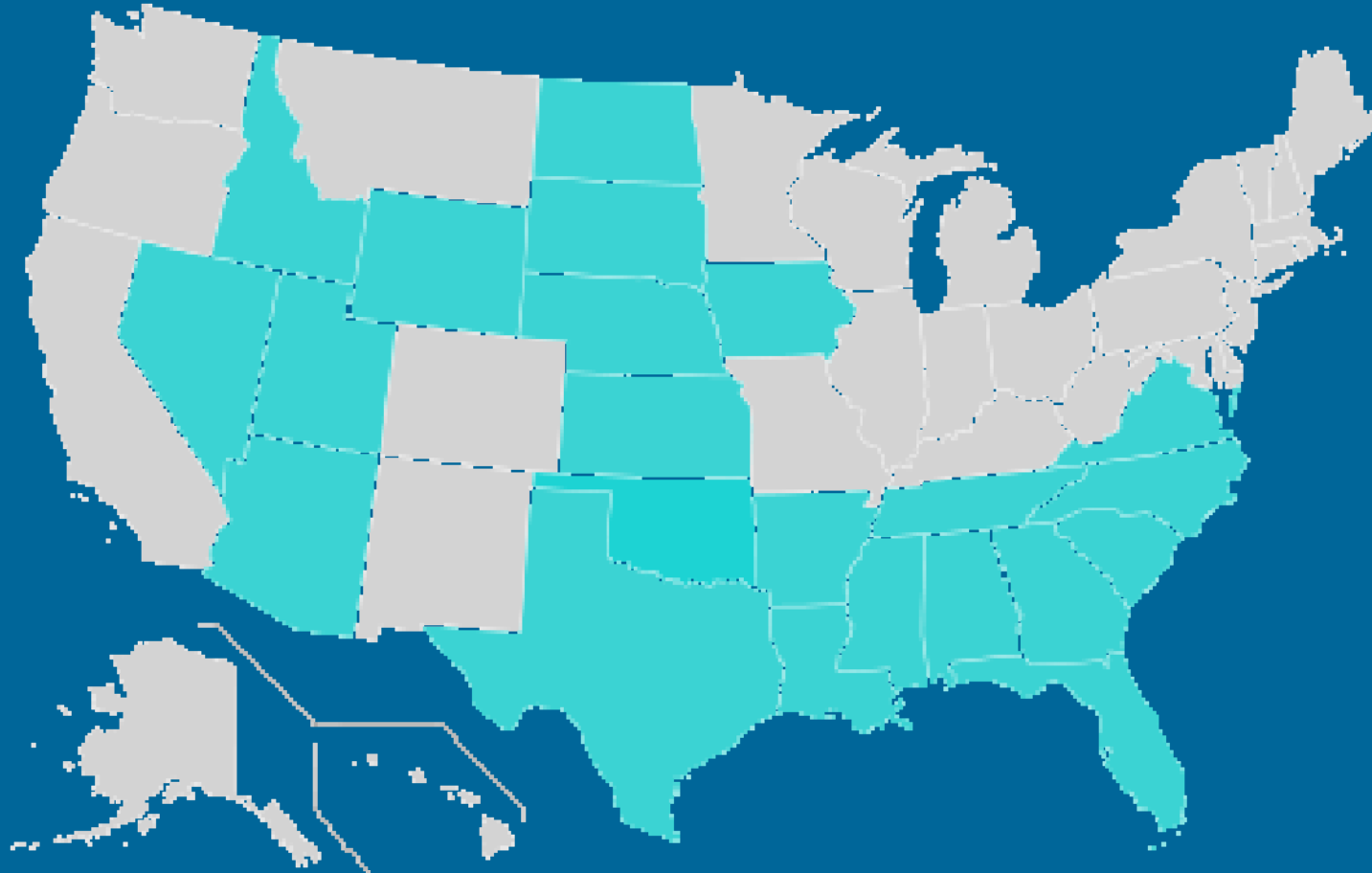
Colorado (2010): Online retailers would have been required to either collect sales taxes or give state officials information about the purchases Colorado residents made. A federal judge stopped the enactment of this law in January 2011.

Texas (2011): Online retailers must collect sales taxes if they own at least 50% of a subsidiary that supports retail operations. Amazon has a Dallas-area warehouse, but has said it will close it because of the state's 'unfavorable regulatory climate.'

**This part of the Vermont law goes into effect only if 15 other states adopt this online-affiliate legislation.

Sources: Amazon; University of Tennessee report; Federation of Tax Administrators; WSJ research

U.S. Right to Work States



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

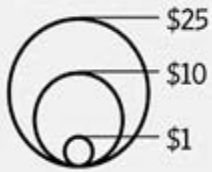
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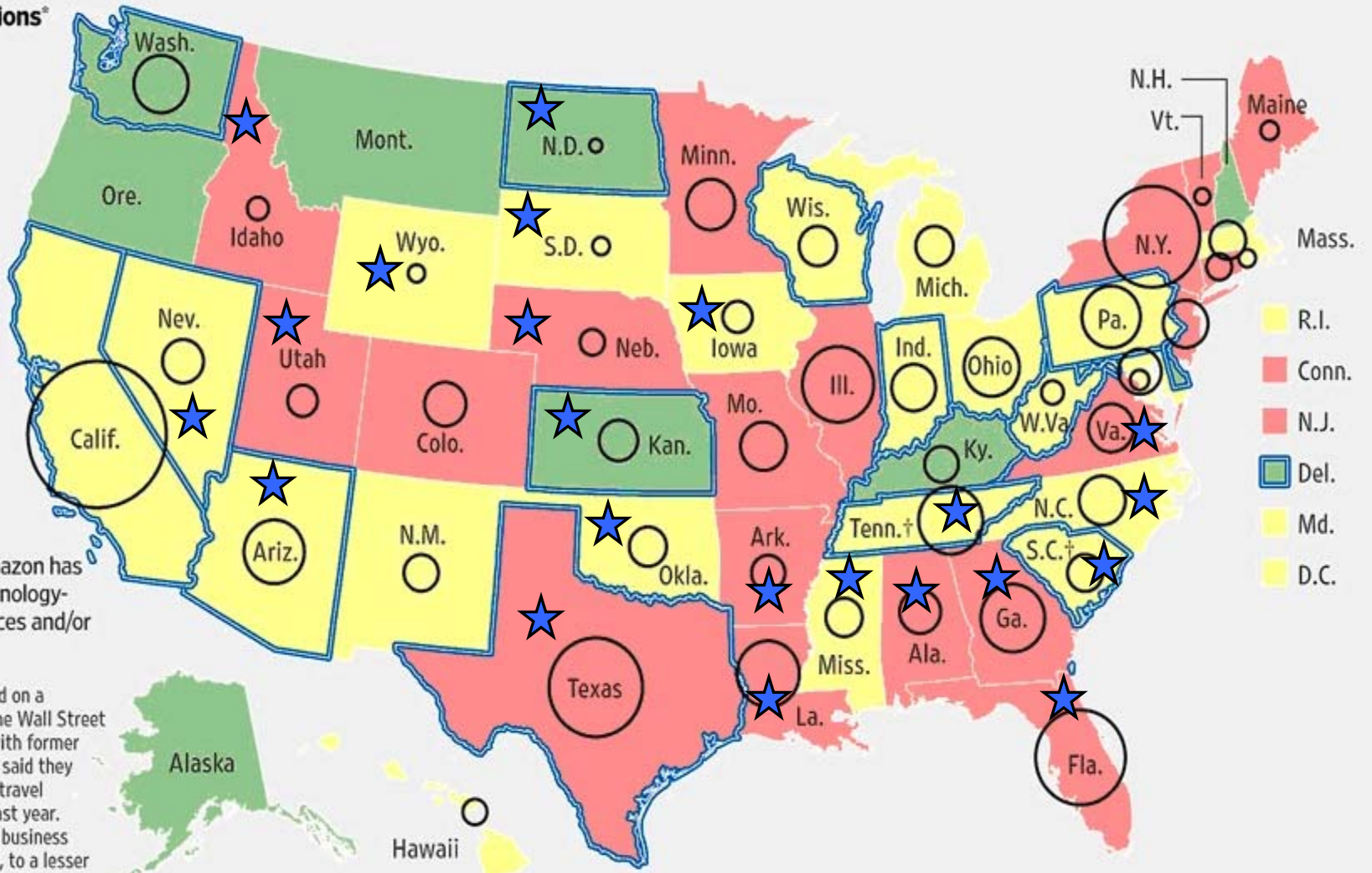
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★ Reflects Right to Work States

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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

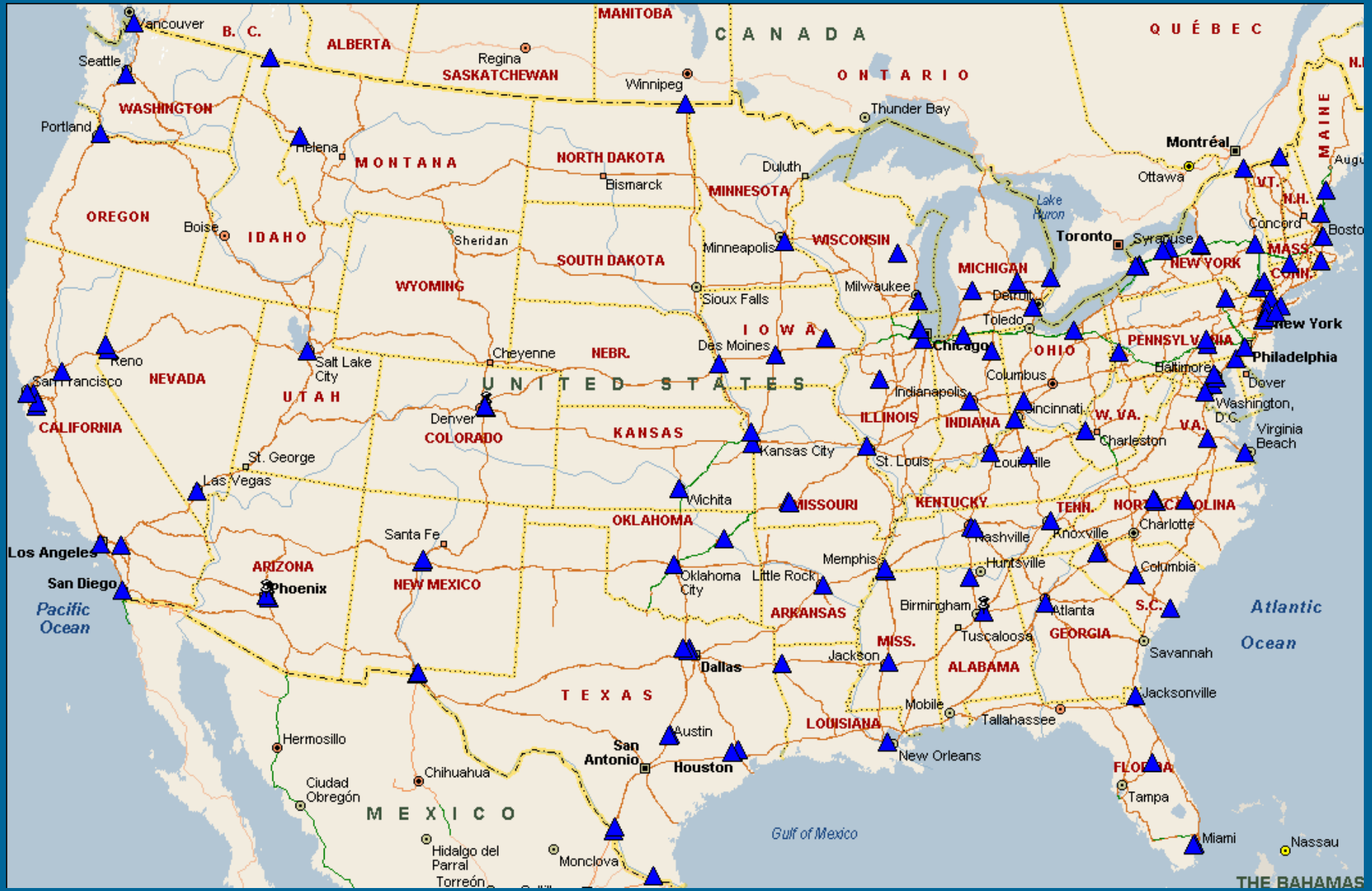
FedEx SmartPost Service Overview

- **Coverage:** 100 percent of U.S. residential addresses, including P.O. boxes, APO and FPO destinations, Alaska, Hawaii, Puerto Rico, Guam, U.S. Virgin Islands, and all other U.S. territories
- **Transit Times:** Typically 2 to 7 business days within the contiguous U.S., based on the final destination ZIP code
- **Package Specifications:** Maximum weight is 70 lbs; maximum length and girth is 130 inches
- **FedEx SmartPost Shipment Status Tracking:** Full visibility on fedex.com
- **Solution used by online retailers, catalogers, fulfillment houses and direct marketers:** Cost-effective means of shipping low-weight packages to residential customers. Offering:
 - State-of-the-art technology
 - 25 strategically located hubs
 - Dock-door to doorstep pickup and delivery
 - Zone-skipping expertise

FedEx SmartPost Hub Network



UPS Supply Chain Solution Locations



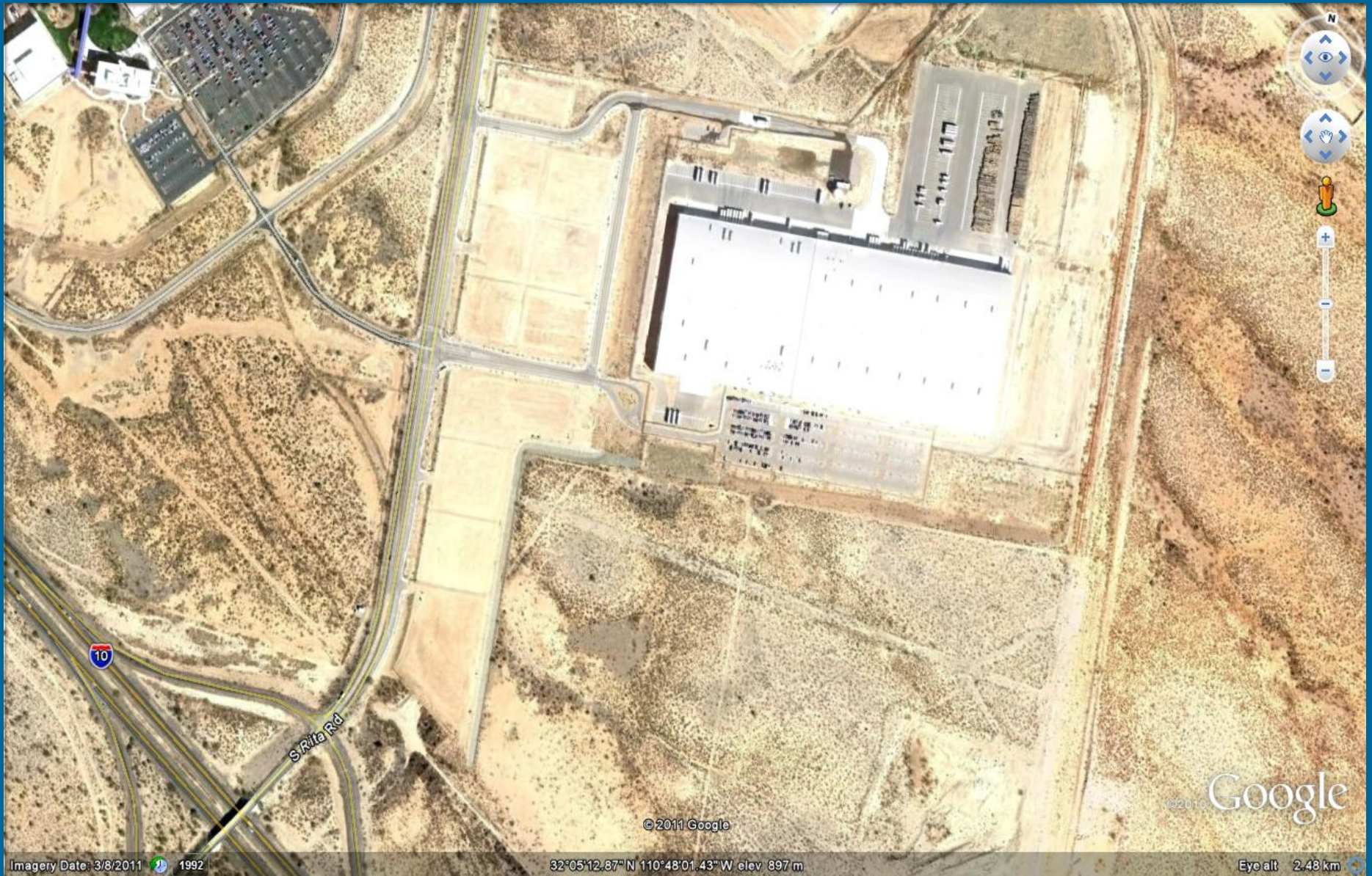
Case Study: Target.com

- Used Amazon during the initial development of their E-commerce business
- Started looking in 2008 – “Southwestern USA”
- CA, NV, AZ, TX, NM, CO
- Narrowed to NV and AZ
- Top reasons to locate: Labor, FTZ, and low operating costs

Case Study: Target.com (continued)

- Key issues were:
 - Tax breaks for RE within the FTZ
 - Available full AND part-time labor (College Labor)
 - UPS truck and air connections, and
 - Low land cost and ability for fast-track permitting (not CA permitting!!)

Target.com Facility in Tucson



The Future of E-Commerce Centers

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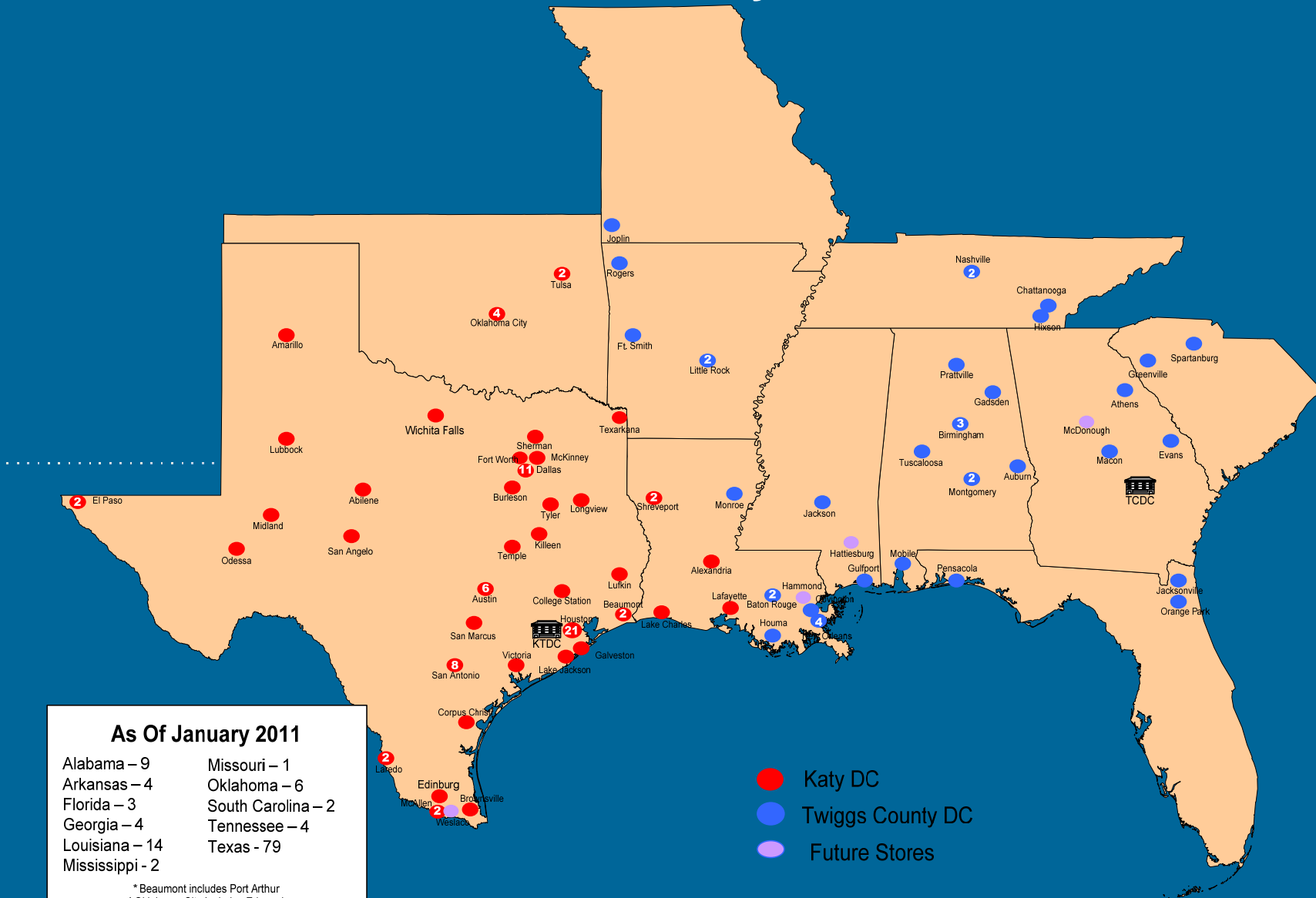
Blending Retail & E-Commerce

- How to blend retail fulfillment and e-commerce fulfillment from the same facility?
 - Same or different logistic streams
- Changes in orders from vendors, packaging changes, placement and picking protocols, shipping requirements in my DC
 - Managing surge and peak demand cycles
- Does having an e-commerce program mean I need a different location?
- Should I do this alone or use a third party for my e-commerce?

Academy Sports and Outdoors

- 128 stores in seven states supported by two distribution center
 - Houston, TX
 - Jeffersonville, GA (Macon)
- 1 million SF distribution center located in Jeffersonville, GA, supports all stores to the east of the Mississippi River
- Second floor of DC now dedicated to their e-commerce initiative which started in June, 2011 and is operated nationwide with all shipping for e-commerce from GA

Academy operates 128 stores in 11 states in the Southern U.S. Serviced by 2 Distribution Centers.



As Of January 2011

Alabama – 9	Missouri – 1
Arkansas – 4	Oklahoma – 6
Florida – 3	South Carolina – 2
Georgia – 4	Tennessee – 4
Louisiana – 14	Texas – 79
Mississippi – 2	

* Beaumont includes Port Arthur
 * Oklahoma City Includes Edmond

Twigg County DC – 38 Stores
Katy DC – 90 Stores
128 Stores

- Katy DC
- Twigg County DC
- Future Stores

Academy DC in Jeffersonville



New Proposed Legislation

- August 2011, Main Street Fairness Act
 - Backed by developers, retailers, revenue-starved states and even Amazon
 - Currently on-line retailers are only obliged to collect taxes in those states where they have a physical presence, such as a store or DC
 - US e-commerce, for traditional and on-line only companies will generate \$50 Billion in state sales tax in 2011, as much as \$12 Billion will go uncollected
- The Bill would ensure that all retailers, regardless of where they are located, collect and remit state sales tax



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Questions?

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