

CB Richard Ellis Annual Conference: FTZs for Brokers - 2007

**Curtis Spencer – President
IMS Worldwide, Inc**



Explaining the FTZ Value Prop

- I have taught CBRE about the FTZ program since 2003.
- Since that time, Brokers in New York/New Jersey, Miami, Phoenix, Los Angeles, Inland Empire, Seattle/ Tacoma, Atlanta, Houston and Chicago have leased 5,000,000 + FEET of industrial space.
- HOW? Because they “got it” when it comes to the FTZ VALUE PROPOSITION!



What is an FTZ?

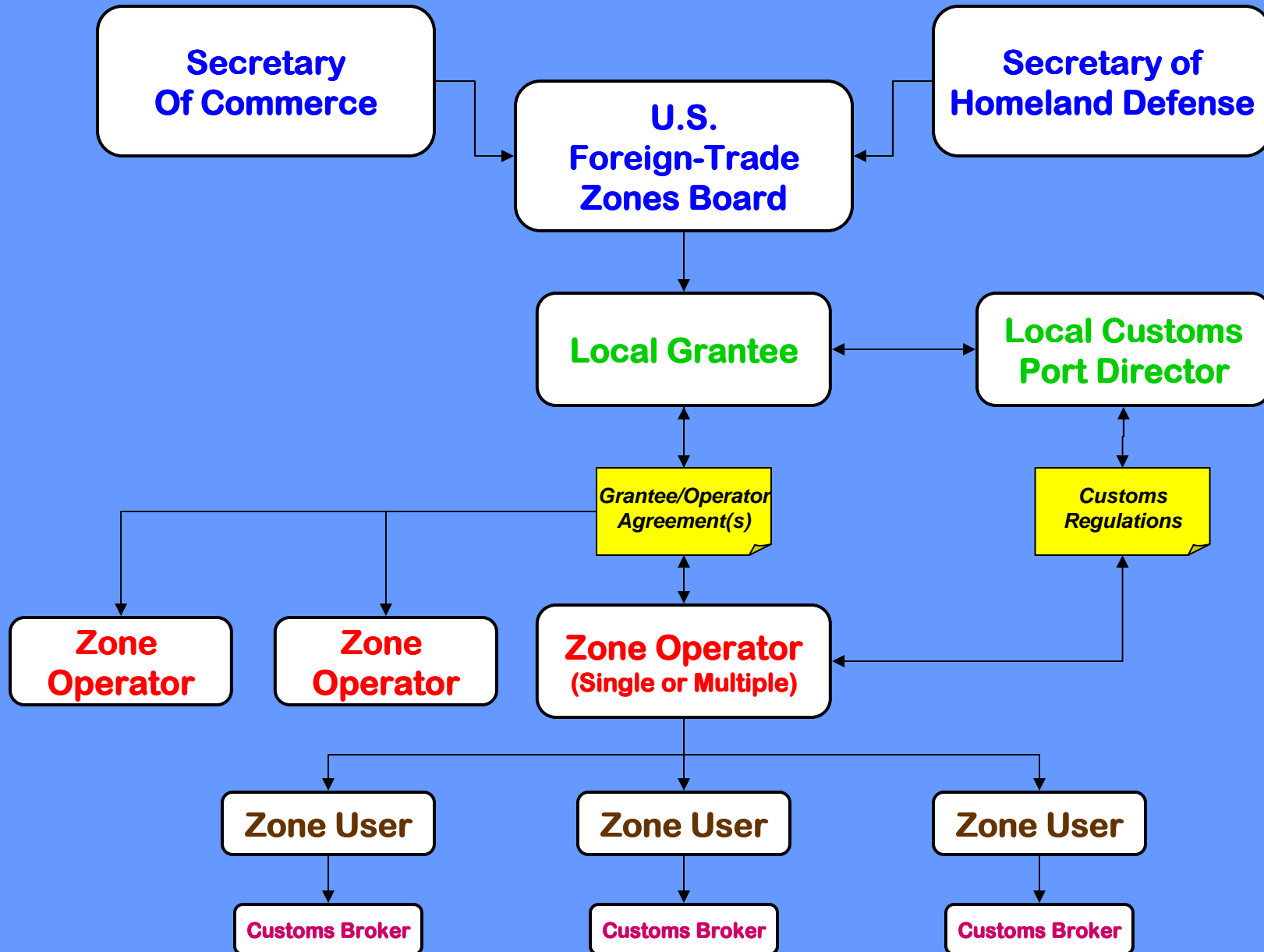
- A Foreign-Trade Zone (or Free Trade Zone) is a Federal Program, started in 1934 and in use in all 50 states today.
- The FTZ allows Federal Taxes and Fees to be lowered, eliminated, or exempt from payment.
- State taxes are lowered in OH, TX and AZ.
- Anyone – any business who qualifies can get it.



What is the structure of an FTZ?

- **Federal Approvals (Commerce and DHS).**
- **Local Approvals/Sponsorship (the Grantee).**
- **Operators (in-house or 3rd Party Operators).**

FTZ Authority Structure





Who Uses the FTZ?

- **FTZs are used by:**
 - **Importers (retail, consumer goods companies).**
 - **3PLs (3rd Party Logistics Providers).**
 - **REITs (as a benefit to their customers).**



Retail Importers Using FTZ's

- Dell
- HP
- Onkyo
- Winnebago
- Skechers
- Reebok
- Adidas
- IKEA (3)
- Black and Decker (4)
- Academy Sport Goods (2)
- Laufen Tile (3 DC's)
- Arizona Tile



Retail Importers Using FTZ's

- Nine West
- Coach Leather Goods
- Mercury Marine
- Sony (3) Adding 7 DC's in LA
- LA Gear
- Lex Mark Printers
- Keds
- Clarion



Retail Importers Using FTZ's

- Gymboree
- Helen of Troy
- Sharp Electronics
- J C Penney's
- JVC Electronics
- Pioneer Electronics
- Thompson Consumer Electronics
- Conair
- JJ Baker
- Oneida



3PLs Supporting FTZ's

- EXEL LOGISTICS
- EGL GLOBAL LOGISTICS
- APL LOGISTICS
- RYDER LOGISTICS
- NIPPON EXPRESS LOGISTICS
- USF WORLDWIDE/LOGISTICS
- AIRBORNE/DHL LOGISTICS
- NYK LOGISTICS
- DSC LOGISTICS
- PacAm



Developers Using the FTZ

- ProLogis
- IDI
- AMB Properties
- Majestic Realty
- First Industrial
- Centerpoint Prop.
- ING Clarion
- Hillwood/Perot
- Carson Companies
- The Allen Group
- Kennedy Advisors
- Sares-Regis
- DP Partners
- Liberty Prop Trust
- RREEF
- Duke
- Watson Land Company
- Johnson Development



So, How does an FTZ help?

- The FTZ **speeds up the supply chain.**
- The FTZ **importing process costs less.**
- The FTZ **security is better** than other methods.

FASTER - CHEAPER - BETTER

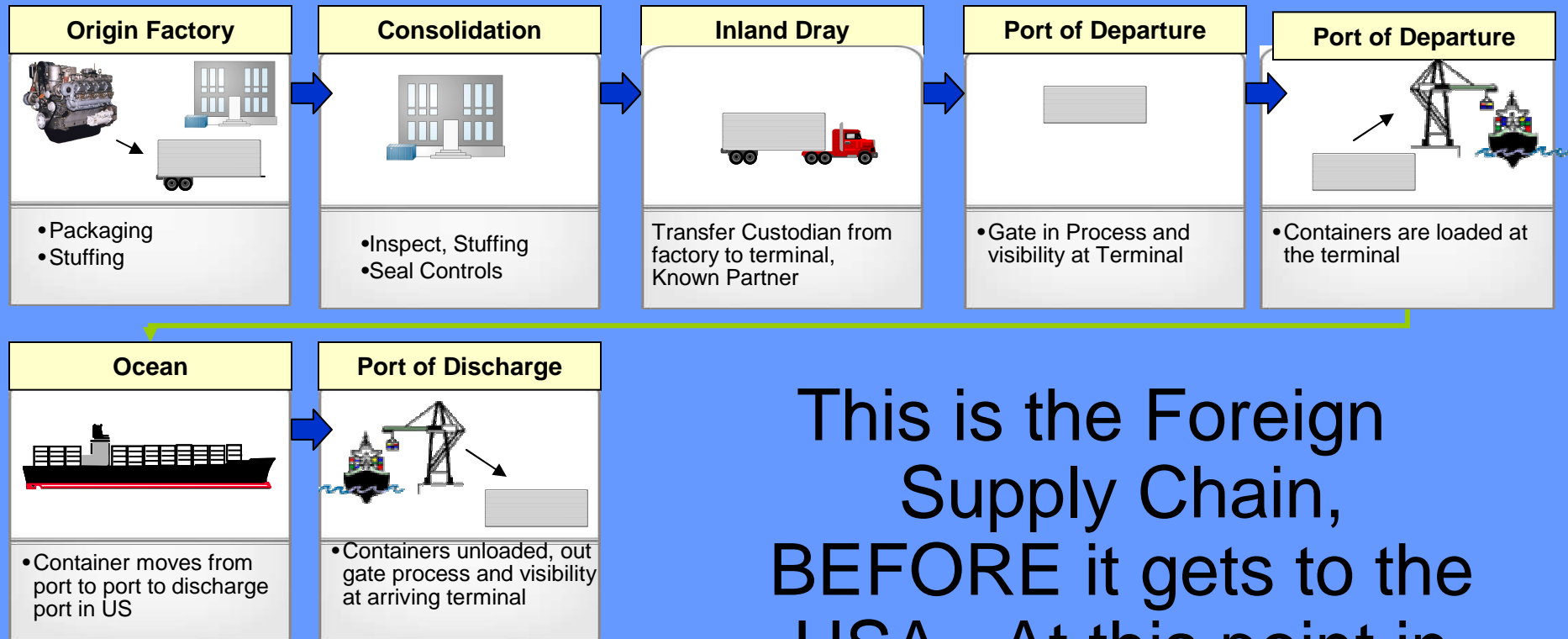


So, How does an FTZ help?

The FTZ **speeds up the supply** chain:

- Black and Decker, Skechers, Huffy Bikes, etc. are all getting 1-2 days **FASTER DELIVERY** of their goods **IN-bound!!**
- Each one gets to use “direct delivery” of goods, which speeds up on-dock/airport processing through Customs of their merchandise

Typical Global Supply Chain



This is the Foreign Supply Chain, BEFORE it gets to the USA. At this point in the process a Customs Entry is Cut.

As you can see, there are many steps before the Goods Get Here!!!

Therefore Supply Chain Velocity is SUFFERING.



So, How does an FTZ help?

The FTZ importing process costs less:

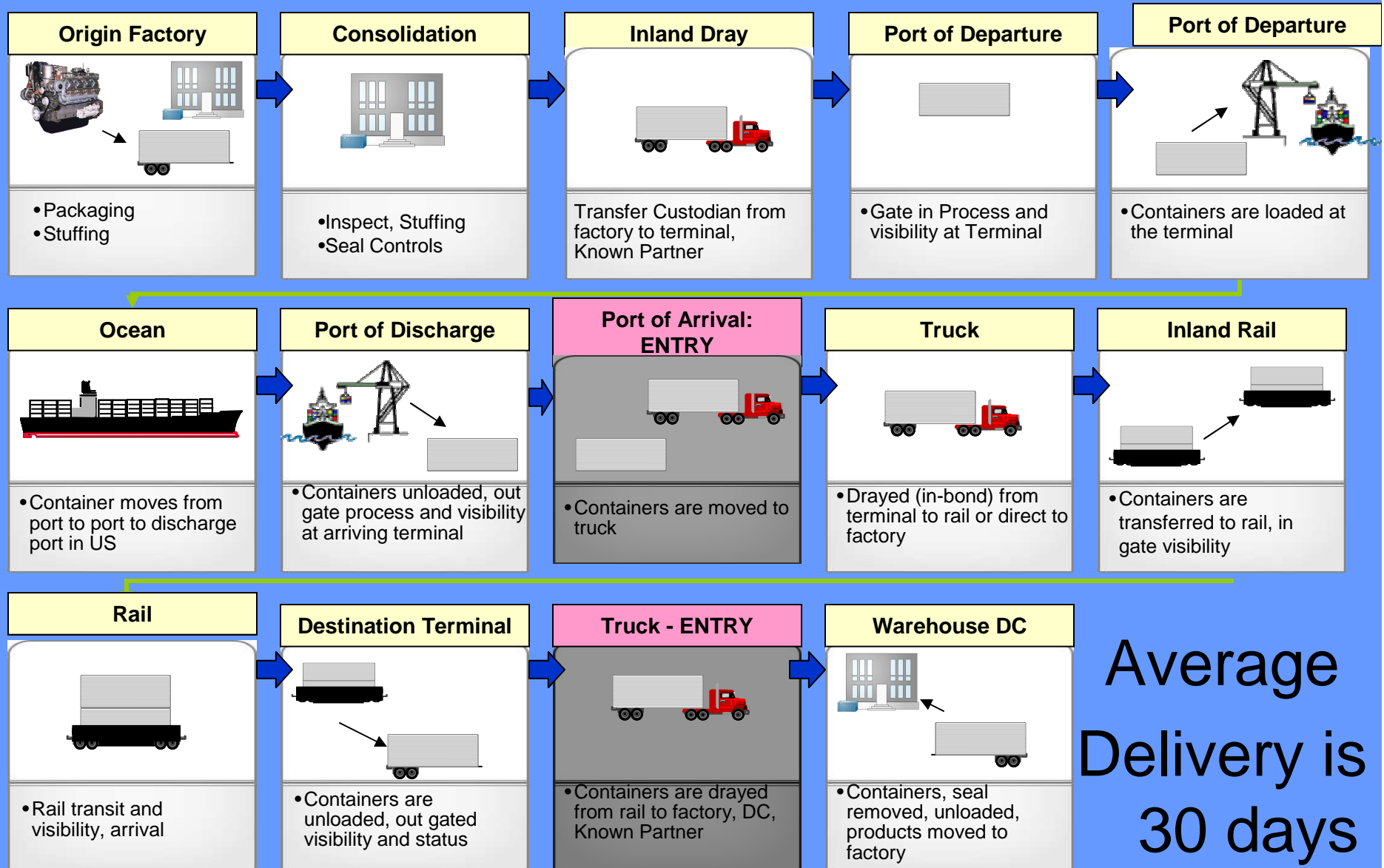
- **\$300,000 to \$1,000,000 on AVERAGE:**
 - Duty Deferral
 - Duty Elimination
 - Duty Reduction
- **Inventory Tax Elimination (Ohio, TX, AZ)**
- **Merchandise Processing Fee Elimination**
- **let me explain this last step....**

Explaining Customs: The Importing Process



- CBP charges Fees to process paperwork.
- Like the PFC you pay on all Flights, the MPF fee is charged per ENTRY .
- An entry is equal to 1 Bill of Lading (BL).
- A BL = 1 Container (sometimes 2-3).
- These MPF fees Customs charges are approx \$200 - \$500 per Entry = \$10,000's per week typically.
- FTZ - Weekly Entry reduces this to \$500/WEEK!!

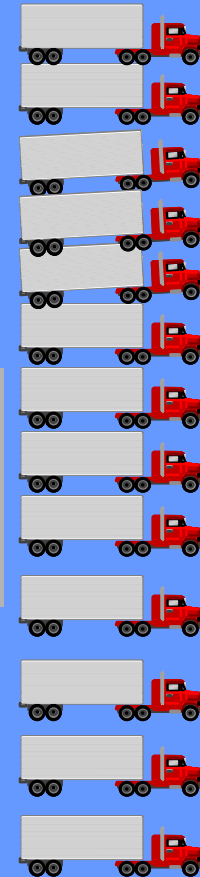
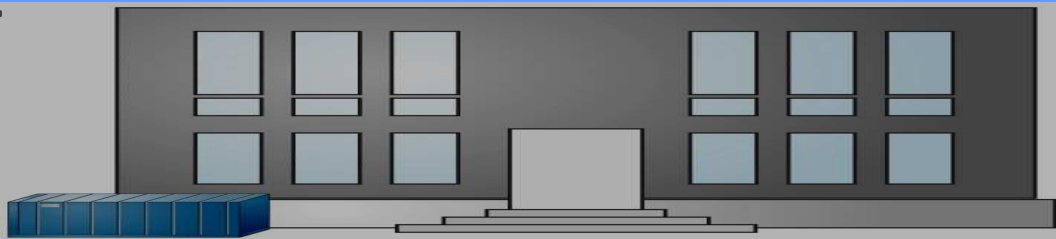
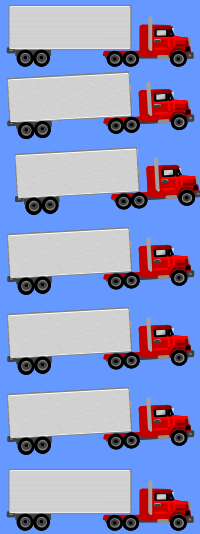
Typical Global Supply Chain



Average Delivery is 30 days

Typical Foreign-Trade Zone Warehouse

Inbound



In a single week, for an import FTZ site, the importer/retailer can save \$9,500/week in MPF Fees, or

\$494,000 per YEAR!

Outbound



Last, but not least: Security in a Post 9-11 Importing World

- The FTZ **security is better** than other methods.
- All importers are going to have to live with 24-hour advance notice of info to Customs...AND,
- 100% Inspection – Scanning of containers.
- This focus on Security makes the importer search for ways to “put back the velocity” into their supply chains, and the FTZ is the way!
- As of Jan. 2007, FTZs are “best practices” security for CTPAT members.



How did CBRE Brokers sell FTZ?

- Understanding the FTZ process is Step 1.
- Discuss the concept with larger retail customers.
- 300,000 ft or more, or
- \$100 Million in import value per year, or
- 1,000 Customs Entries or more... THEN...



How did CBRE Brokers sell FTZ?

- Call IMS Worldwide (a CBRE strategic Partner in FTZ and Supply Chain issues).
- 1-800-741-9286
- Use the www.imsww.com website.
- Determine if there is a savings of more than 2:1 or more (we do a cost-benefits analysis, for free!).
- **LEASE THE BUILDING!!**



What is the process to get an FTZ?

- Local Sponsorship of the Grantee
- Make an application to the FTZ Board
- Activate the user/importer/tenant
- Normal processing time for all this = 12 mos.
- Average cost = \$125,000 in consulting fees.
- Much faster ways, cheaper ways, but on a case by case basis.



Bottom Line?

- FTZ process is now a “site requirement” 40-50%
- FTZ pays for itself at 250-300% ROI in the first year of implementation
- FTZ status is becoming a real factor in speeding up the supply chain which for many of your customers is WAY more important than supply chain costs.
- Old Paradigm FTZ use, operations, and marketing etc are the # 1 impediment to current FTZ use!!

CONCLUSIONS!

- FTZ's offer superior Velocity now.
- FTZ's offer superior Security now.
- FTZ's offer superior cost reduction vs. standard importing.

BOTTOM LINE:

- Someone is going to tell your Tenant about the FTZ advantage....
- Shouldn't it be you?





Questions?
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