Driving Forward

Truck Terminal investment and occupier perspectives

A rapidly "institutionalizing" industrial subsector brings investment opportunities. Occupiers in the space are critical to the 24/7 supply chain backbone of the nation.

Truck terminals are not a new asset class, but after more than 70 years in existence, they are now receiving increased occupier and investor attention because of their critical role in the movement of goods amid supply chain backlogs. Truck terminals were once primarily the domain of LTL (less-than-truckload) operators, but the growth of e-commerce and the need for more forward-deployed inventory to meet increased customer service expectations are driving increased occupier demand for the space.

Truck terminals fall within the specialized property subsector of industrial service properties (ISP). These assets are classified by low building-to-land coverage (floor-area ratio, or FAR). By virtue of the asset type, sales prices (per square foot) are typically higher than traditional industrial assets. One of the key reasons behind the inherently high values is because such properties typically have large secured lots for short- and long-term parking of truck fleets, trailers or chassis.

Investor interest is picking up for this formerly "niche" property subtype, which was once the domain of a handful of logistics-focused players. Recently a new crop of institutional investors hunting for higher yields have started making a push into the ISP space via portfolio acquisitions or dedicated funds. However, a large component of the ISP sector remains owner-occupied due to the mission-critical nature of these transportation-intensive assets.

What is a Truck Terminal?

Truck terminals serve as “high-throughput” transshipment facilities for unloading products from an incoming vehicle and reloading quickly onto an outbound vehicle with no storage time in between. The term “flow through” means they are not designed or utilized for “long-term” warehousing. Truck terminals can serve as a point of transfer to consolidate loads or pallets traveling on a dedicated lane or in the same direction, or as a deconsolidation operation to break down truckloads and sort individual orders to the end user. Centralized truck terminals can help reduce inventory carrying costs by speeding up operations because they avoid put-away and retrieval of faster-moving inventory.

Hypothetical cross-docking operations and their role in a supply chain network

LTL—less than truckload
Less-than-truckload carriers specialize in handling freight from multiple parties on the same truck. Conversely, “truckload” carriers haul a trailer with a single party’s goods. LTL operators utilize truck terminals as a collection point by bringing in trucks from various lanes around the region to a centralized hub.

Import/export and transloading
Three 40-foot ocean containers can be drayed from the seaports or intermodal ramps and unloaded and repacked to consolidate into two 53-foot domestic containers/dry vans for intermodal or highway transportation.

Distribution center bypass
Full truckloads or containers come from the production center or port of entry directly to the truck terminal (instead of a warehouse), where it is then broken down and sent out on box trucks to stores or end users.

Final mile
Bring in freight from a warehouse, stage it at a designated door and send it out on box trucks or vans to the end user. Last mile agents handling bulky products such as furniture or appliances are delivered along various stops to customers’ homes. Food and beverage companies utilizing a direct store distribution model such as dairy or bread and snack companies bring in fresh product and send it out on daily routes for frequent store or restaurant restocking.

Truck Terminal design characteristics

- Low building-to-site coverage ratio
- Can range from 15,000 to 100,000 s.f.
- Long and narrow building with full truck circulation
- Building depth: 70–80 feet, up to 100–120 feet if building on spec
  - A standard trailer is 53 feet
- Docks positioned at 12-foot centers
- Ideally column-free
- Clear height is not important
- Metal panel buildings OK
- Minimal office for dispatch and operations
- Full concrete yard
- Fenced/secured
- Segregated employee/driver auto parking
- Potential for fueling canopy and/or maintenance building on site

Top occupier priorities

1.

Customers are demanding faster delivery times amid supply chain woes, which is requiring shorter delivery runs and forward deployment of inventory closer to population and consumption centers

With the rapid growth in e-commerce, shifting business-to-business delivery patterns and supply chain disruptions, warehousing and transportation are increasingly critical areas of focus for corporations. Now more logistics and distribution companies, 3PLs, retailers and food & beverage companies are tapping terminals to support and expand their distribution network coverage. To put things into perspective, location is a driving factor and the rent on a truck terminal is a relatively low component of operating expenses for transportation companies, as they are spending more on fuel, insurance, driver retention pay and updating their fleets. Occupiers may have to bite the bullet on rising rents when faced with extremely limited relocation opportunities as ISP values rise.

Lease economics
It is important to point out that lease transaction are typically structured on a "per-dock-door" basis rather than per building square foot. The value of trailer and fleet parking is baked into the rent. A rule of thumb, which varies by market and geography, is that every dock position is allotted one to two (or more) off-the-dock-wall trailer parking spaces. For example, a 50-door terminal could include 100 trailer parking spots on the site. Having a maintenance shop on the premises can also boost values as it allows companies to repair their own fleets.

Primary shipments of freight moved by trucks 11.84 billion tons

- **Ratio of parking stalls to dock positions is critical**
- **Real estate cost is less of a consideration for logistics operations**
- **Clear height, cosmetics and curb appeal are not important**

Landlord-favorable market conditions
The occupants of these facilities are often less concerned with the cosmetic aspects of their spaces when compared with other industrial occupiers like retailers or manufacturers, who are focused on higher-image buildings with different characteristics. Although larger facilities (100,000+ s.f.) can be demised to two or three tenants, there is a propensity for these to be single-tenant facilities due to security and yard congestion management. Trucking companies can make do with older-vintage space provided the location works and it has the appropriate number of doors and parking spaces. However, if a new outpost or relocation due to growth is warranted, for many it is difficult finding better buildings in the current market.

Building features and functionality
In many cases for larger operations, the site layout and features of truck terminals are unique to each company. For example, some fleets may or may not need a fueling canopy; others may like their maintenance building sited on a specific section of the property. Because of this, they are rarely built on a speculative basis. Newer-vintage owner-built terminals infrequently come on the market as they are essential to a company's network. For example, some of the 3PL operators want to control their real estate regardless of whether they have a contract.

Investor perspectives

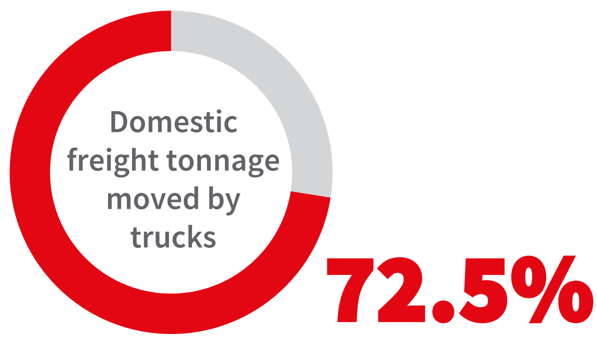
2.

Tight supply of existing inventory and high barriers to entry for development driving NOI growth

Truck terminals and ISPs can provide diversification to an investor's portfolio composition and offer a unique exposure to the red-hot industrial sector. Cap rates may be higher than traditional industrial assets due to limited market data and the fact that they may be more challenging to re-tenant and manage. If acquiring a geographically dispersed portfolio, it is important to understand that a truck terminal in a tertiary market may only serve a need for that specific company's network. In addition, it is important to consider tenant credit in the transportation sector, as there are thousands of small-fleet, "mom-and-pop" asset-based trucking companies. Even some of the larger national LTL companies have struggled with debt loads as a result of M&A and consolidation in the sector. Lower-quality operators can sometimes translate to more deferred maintenance.

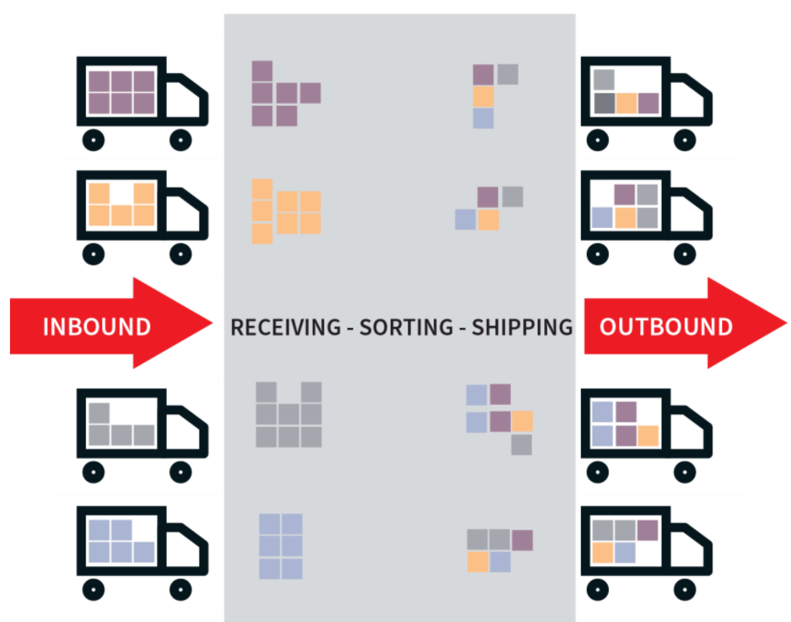
Development considerations for valuation

There is intrinsic value in existing assets due to high barriers to entry to build new facilities. In many municipalities, truck terminals may require "intensive industrial" or "heavy manufacturing" zoning designations. Due to the 24/7 nature of operations, many communities are not fond of the heavy traffic. Anti-industrial development sentiment runs high in this sector, and municipalities may require more screening, landscaped berms and buffer zones, which can eat up usable space. Otherwise, these facilities may be found in unincorporated areas with longer highway stem times.



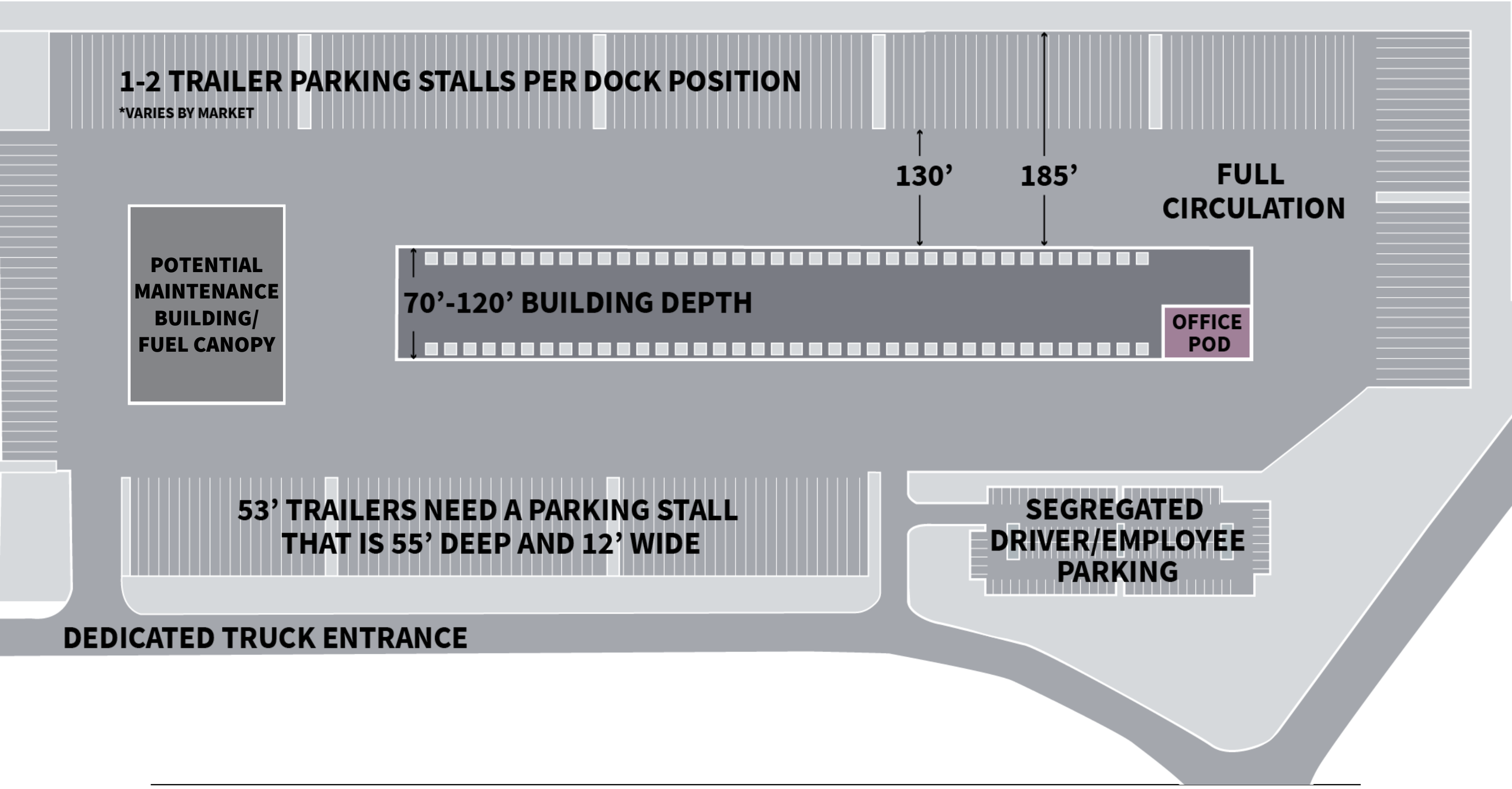
Source: American Trucking Association, 2019

- **Sector is largely owner-occupied with fewer acquisition opportunities**
- **Embedded value in the land**
- **Limited new development keeps threat of tenant relocations low**



Outlook for the sector

The demand to have product closer to the population started 15 years ago because of the cost of transportation. Lumpy supply chains driven by rapid changes in online consumer habits, port backlogs, driver shortages and compressing delivery windows are all translating into strong fundamentals for high-flow-through ISP assets. Coupled with the massive growth in e-commerce, leasing velocity and investor interest for this niche asset class has accelerated pricing. Capital is cycling toward truck terminals as logistics investors diversify their portfolios away from traditional warehousing and distribution spaces and chase higher returns in a maturing niche asset class. Existing functional truck terminals—regardless of age and condition—still have a tremendous value, largely because of the allowed use and parking yards. The tight inventory base leads to "sticky" tenancy among a diverse range of occupiers, including LTL operators, transloaders and last mile agents.



Chad Buch
Research Manager
Chicago
+1 773 458 1405
Chad.Buch@am.jll.com

Dean Brody
Executive Managing Director
East Rutherford
+1 201 528 4410
Dean.Brody@am.jll.com

Robin Stolberg
Executive Vice President
Chicago
+1 312 300 7321
Robin.Stolberg@am.jll.com

About JLL

JLL (NYSE: JLL) is a leading professional services firm that specializes in real estate and investment management. JLL shapes the future of real estate for a better world by using the most advanced technology to create rewarding opportunities, amazing spaces and sustainable real estate solutions for our clients, our people and our communities. JLL is a Fortune 500 company with annual revenue of $16.6 billion, operations in over 80 countries and a global workforce of more than 92,000 as of June 30, 2021. JLL is the brand name, and a registered trademark, of Jones Lang LaSalle Incorporated. For further information, visit jll.com.

About JLL Research

JLL's research team delivers intelligence, analysis and insight through market-leading reports and services that illuminate today's commercial real estate dynamics and identify tomorrow's challenges and opportunities. Our more than 400 global research professionals track and analyze economic and property trends and forecast future conditions in over 60 countries, producing unrivalled local and global perspectives. Our research and expertise, fueled by real-time information and innovative thinking around the world, creates a competitive advantage for our clients and drives successful strategies and optimal real estate decisions.