SUMMARY OF COMPETITIVE LOGISTIC ISSUES WITH SPECIFIC REFERENCE TO SOUTHERN NEVADA

The summary comments to be presented in this meeting are based upon a recent lengthy research study completed in 2009 titled **A STRATEGIC ANALYSIS OF SOUTHERN NEVADA'S ECONOMY: IMPLICATIONS OF INDUSTRIAL LAND CONSTRAINTS FOR REGIONAL GROWTH AND INCOME,** The study was sponsored by NAIOP Southern Nevada and was completed by the Theodore Roosevelt Institute (TRI).[1]

There are two key issues:

- What, if anything, could create a competitive advantage for Southern Nevada in the Southwest large–scale warehouse/distribution center market?

- If such a viable sector is not imminent, what are the implications for the long-term sustainability of the Southern Nevada economy?

The research finds that there are significant future impacts on the health of Southern Nevada's economy due to potential limitations on the region's goods distribution sector. Despite the current recession, (relative) industrial land shortages in Southern Nevada will potentially continue to lead to relatively higher land prices versus competitors putting the region at a competitive disadvantage compared to other Southwest metro areas.

This research finds that this singular disadvantage could be mitigated if and only if adequately sized parcels are made available for warehouse and distribution uses, and appropriate companies per diversification (such as manufacturing) are a more effective part of the economic landscape. These goals are, of course, a major target and goal of Southern Nevada's economic development efforts.

[1] An adobe copy of this report is available from A. Schlottmann [alan.schlottmann@unlv.edu, office: (702) 895-0817, cell: (702) 860-7947]

EXHIBIT G - LOGISTICS
Meeting Date: January 25, 2010
Document consists of 6 pages.
Entire Exhibit Provided.

The examples presented in the research illustrate the essential linkage between economic diversification/development and the availability of warehousing and distribution facilities in Southern Nevada. Lower land prices (which represent approximately 33% of the costs of warehouse construction) certainly lower lease rates per square foot. However, what is also needed is the concurrent stimulation of the manufacturing sector (i.e., value-added products) that also lowers inbound freight charges and dramatically enhances Southern Nevada's competitive position.

This is due the fact that relatively small but higher transportation and warehousing costs in Southern Nevada compared do our major competitors will lead to cumulative negative impacts that could significantly harm our economy in the future. In other words, this regional cost disadvantage in goods distribution will harm the trajectory of economic growth, diversification and development in our region.

As has been recently recognized in Southern Nevada through the research activities of the Southern Nevada Regional Planning Coalition ("SNRPC"), the role of warehousing and regional distribution is critical to the concept of supplier linkages in industry location decision-making. These linkages are integral to the issue of the final cost of delivered goods. For example, the region's forecasted population growth will result in the "law of large numbers" whereby a local location would be more desirable than shipping to Southern Nevada from elsewhere. This reflects the economies of scale inherent in activities, such as prepared food and beverage manufacturing; and why having sufficient warehousing capacity is so important for Southern Nevada continued prosperity.

For the last several years, policy makers and the development community has often expressed concern about the future health of Southern Nevada's economy because of the potential lack of warehousing and distribution space. Thus, what would happen to "normal" trajectory of economic growth in Southern Nevada if the region maintains a "tunnel-vision focus" on land for residential development at the expense of land for the warehousing and distribution of goods to meet our local needs?

As an extreme example of the unappreciated role of warehousing and regional distribution facilities, consider the following: Assume that in the future, as the population of Southern Nevada reaches projections of three million persons, that most, if not all, groceries are delivered from outside the region, because of a lack of local warehouse and distribution space.

As shown below, currently, the most expensive major cities for a common comparative bundle of groceries in the Southwest are Los Angeles (an index of 111.4 as shown in the table below) and San Diego (an index of 112.7).

Cost of Living: Selected Cities: 2008 Groceries Index

City	**Index**
Phoenix, AZ	103.8
Los Angeles, CA	111.4
San Diego, CA	112.7
Denver, CO	104.7
Las Vegas, NV (Actual)	99
Las Vegas, NV (Non-local distribution calculation)	**112.4**

If a worst-case logistics "island" was to develop for Southern Nevada and grocery distribution and manufactured foods were "imported" from outside the region (not warehoused in the region), Las Vegas would be as expensive as Los Angeles and nearly as expensive as San Diego. It is critically important to note that prices in Los Angeles and San Diego already include a higher cost of electricity, higher workman's compensation, and a higher tax structure than implicitly included in Nevada prices. Even so, the impact of worst-case logistics costs swamps these other costs.

Many companies initially find Southern Nevada attractive as a potential warehouse and/or distribution center location due to its business-friendly environment, amenities, low taxes, large and "affordable" employment-base and access to large customer markets in Southern Nevada, Central Arizona, Southern Utah and most importantly, Southern California. Unfortunately, this initial interest is too often mitigated by the relatively high price of land and the scarcity of appropriately sized parcels necessary for large-scale warehousing and distribution.

Consequently this report concludes that:

- The ability to locally manufacture/assemble products for local consumption and for export to Southern California and/or Phoenix dramatically and positively changes the calculus for distribution in Southern Nevada.

- Conceptually and positively, Southern Nevada does have the potential ability to act as a regional distribution center to all or a portion of the Southwest, assuming that appropriate sites are available that do not suffer "bottlenecks" relative to interstate access.

In *all* of the examples presented in this report, having commercial lease rates that are comparable to competitive areas, or having lease rate reductions combined with increased local production for regional export dramatically enhances Southern Nevada location for warehouse distribution facilities.

Finally, this report explored the potential negative impacts of the above factors on the regional economy of Southern Nevada. The potential impact of the cost disadvantages were modeled from 2012 to 2035. The three basic assumptions used were:

(1) The clear upward trend in logistics costs may trend to 16% -20% of gross product,

(2) Nevada fuel surcharges for basic haulage contracts continue at multiplier levels of 1.37 surcharges or will fall to a previous high range of 1.31, and

(3) Land restrictions result in an inability to have viable regional distribution facilities in Southern Nevada.

Under these assumptions, our research suggests that there is a potential 5% increase cost disadvantage for Southern Nevada relative to national norms. A cost range of possible disadvantages from 3%-7% with a possible 10% upper figure are also shown for illustrative purposes.

At first glance it may appear that 5% is not a "large" percentage disadvantage. Thus, does this level of disadvantage really matter to Southern Nevada since it doesn't appear to be large? In simple terms, 3%-7% or, even 10%, seems to be relatively small? How would these cost differences impact the assumed base-case where Southern Nevada mirrors the national economy?

Details of TRI's economic model results are available in a series of tables and graphs. The focus was on five economic variables as measures of the future sustainability of the Southern Nevada economy:

1. Employment
2. Population
3. Per Capita Income
4. Manufacturing Employment
5. Scientific Professional Employment (Life sciences, physical scientist, etc.)

In summary, there are several major implications for Southern Nevada's economic future resulting from our findings:

- While regional distribution (warehousing and transportation) is rarely seen as an "exciting" economic topic compared to sectors, such as biotechnology, a lack of competitive facilities will generate major negative impacts on employment and per capita income in Southern Nevada in the future.

- All of the five Southern Nevada economic indicators analyzed in this report will, unfortunately, be significantly and negatively impacted by a scarcity of these facilities.

- The declines over time, on employment and per capita income growth are significant (15%-20%) compared to the base-forecasts, and are generated by relatively small cost disadvantages (such as 5%-7%).

- The projected negative impacts on expected per capita income are also source of serious concern because of their effect on the quality of life of residents and the attraction of companies and workers to Southern Nevada.

- The manufacturing sector (and, thus, future economic diversification/development) suffers major shortfalls in projected employment gains over the forecast period.

- The cumulative negative impacts of noncompetitive logistics situation in Southern Nevada far exceed direct estimates of the region's cost disadvantages.

Illustrative of these impacts is the long-term effect on Southern Nevada's future employment picture assuming a "normal" regional cost structure for Southern Nevada graphically shown below. The chart clearly illustrates that, if Southern Nevada would sustain costs for delivered good at levels 5% above the national average, over time, the rate of employment growth would ultimately be reduced by 15% from the expected normal cost trend.

Southern Nevada Warehousing and Distribution Cost Impact on Forecasted Total Employment Growth
3%, 5%, 7% and 10% Delivered Prices Above National Trend: 2012 - 2035
Percentage Reductions to Forecast of Total Employment under Normal Cost Trend