The Industrial
O·U·T·L·O·O·K

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A Sure Way to Building Wealth Without Paying Taxes

Many real estate investors mistakenly believe that a property exchange is simply a "swap" of properties. In the context of a two-party barter, tax-deferred exchanges are typical sales and purchases that involve the same components as any other sale or purchase, but without the capital gains.

Section 1031 of the Internal Revenue Code provides a method by which an investor can avoid paying taxes on property transactions. The properties and parties in a 1031 Exchange include: (i) **Relinquished Property** – the property the taxpayer is selling, (ii) **Replacement Property** – the property the taxpayer is acquiring, (iii) **Exchanger** – the taxpaying person or entity selling the relinquished property, and (iv) **Qualified**

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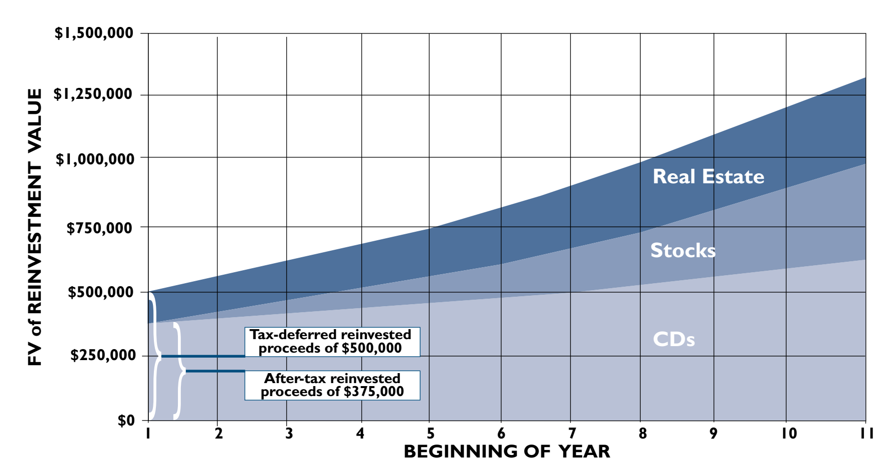

War Time Economy

It is only natural in times like these to feel afraid of what the future holds. The terrorist attacks on September 11 introduced a new level of uncertainty in the world's economy and financial markets. However, the real peril investors face lies not in the war on terrorism or the short-term declines in the stock market. The imminent danger is making emotional choices in a climate of dread and uncertainty.

Clear thinking and patience are more important now than ever. Investors who succumb to their emotions by selling in a down market could pay dearly. History shows that investors who stand firm in their long-term investment strategies will suffer the least, and are the most likely to reap the benefits when the market recovers.

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Site Selection Magazine Honors The Walker Companies

The Walker Companies have been selected as a recipient of the prestigious *Site Selection*/William Dorsey Service Provider Award for 2001, signifying excellence in client service. The firm was sited by an editorial board of *Site Selection* magazine, based on results of surveys that identified special contributions to client service in the corporate real estate profession.

"The *Site Selection*/William Dorsey Service Provider awards recognize a select group of players in the corporate real estate management profession," noted Mark Arend, Editor of the *Site Selection* magazine. "The winning companies have demonstrated a willingness to go the extra mile in their work with corporate real estate managers. Client expectations can be – and should be – demanding. These awards honor the service companies that exceed those expectations."

In This Issue

Electricity Deregulation: California Here We Come?

California is now the poster child for how not to deregulate electric utilities. Restrictions placed on pass throughs of price increases, insufficient generating capacity, and inadequate transmission infrastructure have resulted in chaotic market conditions, bankruptcy of major utilities, rolling blackouts, and massive spending by the state to fix the problem it created.

But before we throw the baby out with the deregulation bath water, an objective assessment of deregulation shows some success elsewhere in the U.S. According to the Center for Advancement of Energy Markets, several states are making significant progress in transitioning to a competitive market from a regulated one.

The center has developed an index for Retail Energy Deregulation (RED), which purports to score each state at its effectiveness to moving toward a fully deregulated environment. Each state is scored on 22 variables dealing with the level of competition among utilities, wholesale market structure, consumer protection, and other attributes. A state with an index of zero represents a monopoly model. The higher the index, the more clearly the market reflects true competition.

Pennsylvania, New York, and Maine lead the nation in successful deregulation, according to the study, with the most non-competitive states being Colorado, Idaho, Louisiana, Minnesota, Mississippi, Alabama, and Nebraska. ❑

Results of the 2001 Retail Energy Deregulation Index (RED)

State	2000 Score	2000 Rank	Score Change 1999-2000
Pennsylvania	66	1	3
New York	64	2	7
Maine	62	3	10
Maryland	56	4	49
New Jersey	47	5	9
Arizona	47	5	0
Washington, DC	47	5	47
Montana	44	8	0
Connecticut	43	9	0
Massachusetts	41	10	3
Michigan	40	11	26
Illinois	40	11	34
California	38	13	0
Texas	37	14	33
Ohio	37	15	33
Rhode Island	36	16	0
Delaware	31	17	2
Virginia	30	18	26
Nevada	28	19	24
New Hampshire	27	20	-5
Oregon	21	21	16
West Virginia	17	22	17
Arkansas	14	23	10
New Mexico	9	24	0
Vermont	6	25	0
Kentucky	3	26	0
Washington	2	27	0
Kansas	0	50	0
Alaska	0	50	0
Florida	0	50	0
Georgia	0	50	0
Hawaii	0	50	0
Iowa	0	50	0
Missouri	0	50	0
North Carolina	0	50	0
Wyoming	0	50	0
Oklahoma	0	50	0
South Carolina	0	50	0
South Dakota	0	50	0
Tennessee	0	50	0
Utah	0	50	0
Wisconsin	0	50	0
North Dakota	0	50	0
Indiana	0	50	0
Colorado	-8	51	0
Idaho	-8	51	0
Louisiana	-8	51	-8
Minnesota	-8	51	-8
Mississippi	-8	51	-8
Alabama	-8	51	-8
Nebraska	-8	51	2

Note: A composite score of Zero represents a monopoly, while a score of 100 represents complete and effective implementation of the policies that the center thinks are the necessary foundation of the competitive model.

The Myopia of MSAs

The days of Metropolitan Statistical Areas (MSAs) as a way of thinking about economic development are numbered.

Among two generations of brokers, developers, and corporate real estate executives, the language for discussing growth and vitality of major markets has revolved around the MSA. It was a nifty concept that at once erased political boundaries, tracked commuting and employment patterns, and refined our understanding of what a city was becoming in the post-war era. Today it will continue to be useful for retailers, whose success depends on judging convergences of location and disposable income in the urban core and suburbs. Office developers still will check out MSAs to discern rooftop and drive-time patterns among white-collar workers. But when it comes to logistics and industrial development, MSAs have far less to tell us about the future.

Nowhere is this changing dynamic more apparent than in the Mid-South, a sprawling 31-county region with Memphis at its hub. The Mississippi River divides the region. State lines corrupt it. Cheap labor in the Caribbean, Mexico and Pacific Rim has depleted most of its come-lately Sunbelt manufacturing base. Memphis itself slipped four notches from 40th to 44th place among MSAs nationally in the 2000 Census.

Still the area prospers. The past decade has seen an explosion of warehouse and distribution development in and immediately around Memphis – from 90 to 150 million square feet. Capital investment is growing at a 9% clip. By the Labor Department's latest statistics, hourly wages are increasing 5% annually. Memphis International Airport, anchoring FedEx's primary sorting hub, has emerged as the world's largest air cargo facility. To play defense against FedEx in 1998, United Parcel Service opened a 300,000 square-foot sorting hub next to the airport. Now UPS is doubling the size of a facility it built only grudgingly.

As an industrial development market, three factors are knitting the Memphis region together more closely:

• Prime industrial land is becoming scarce in Memphis;

• Industrial developers already have completed new parks in North Mississippi. With the repeal of the state's old 7% warehouse tax effective this past July 1, third-party logistics (3PL) firms are locating south of the Tennessee – Mississippi state line;

• Investors are taking fresh looks at vacant manufacturing buildings in the Mid-South region as candidates for retrofit and multi-tenanted warehousing.

The growing pains are plain enough. Mississippi's inventory of available industrial space, for example, jumped from 15 to 19 million square feet in the first quarter of 2001. Bankrupt cut-and-sew companies like Fruit of the Loom are disposing of buildings like bodies being dumped off a train, selling facilities at auction in Greenville, Mississippi, and Osceola, Arkansas, for $1.57/s.f. and $1.13/s.f. respectively. Meanwhile, in Greenwood, Mississippi, local investors paid a healthier $1.69/s.f. for a vacant Baldwin Piano Co. building for conversion from manufacturing to warehousing. More obsolete manufacturing buildings with low ceiling clearances and thin floors are likely to remain rusting tin cans on the Mid-South landscape.

Area promoters, like the Governors' Alliance of Regional Excellence, are thinking globally. In a study unveiled in July with the blessings from the governors of Tennessee, Mississippi, and Arkansas, the Memphis region is touted as the key transcontinental hub linking the east and west coasts beneath the frost belt. Ballyhooing aside, though, the two-mile-long "World Runway" at the Memphis airport has been a reality since last September, allowing cargo jets to reach markets anywhere on the globe overnight. On the ground meanwhile, planning and funding proceed on I-69, a new North American trade corridor connecting Montreal to Mexico City through Memphis. What's missing, the Governors' Alliance report notes, is a new bridge across the Mississippi River. "The construction of a third road-and-rail seismic (earthquake proof) multi-modal bridge would not only reinforce Memphis' position as a transcontinental hub, it would also serve as an economic generator for West Memphis, (Ark.), eastern Arkansas and northern Mississippi."

If the bridge were finished tomorrow, you can bet MSAs would take years noticing it. ❑

Worker Compensation: Golden Delicious vs. Granny Smith

Valid inter-state comparisons of workers compensation costs are very difficult to make due to state-to-state differences in industry mix, wage loss calculation and medical costs. While “apples-to-apples” comparisons are difficult, several recent studies come close. These may not be totally valid comparisons, but they are not “apples to bananas” either. Let’s characterize them as comparisons within the apple family, say, Golden Delicious to Granny Smith.

The first study, compiled by the National Council on Compensation Insurance, compares the “Loss Cost” across 37 jurisdictions that use NCCI to develop annual rate filings. Loss Cost represents the expected benefits that will be paid per $100 of payroll for the average insured per classification.

NCCI normalized the data to minimize differences attributable to state-to state deviations in industry mix, medical costs, and so forth. The results are shown in the chart, with each state ranked based on estimated Loss Cost.

The states with the lowest loss cost may be indicative of states with lower overall workers compensation costs for employers. The five lowest are Indiana, Virginia, Utah, South Carolina, and Iowa.

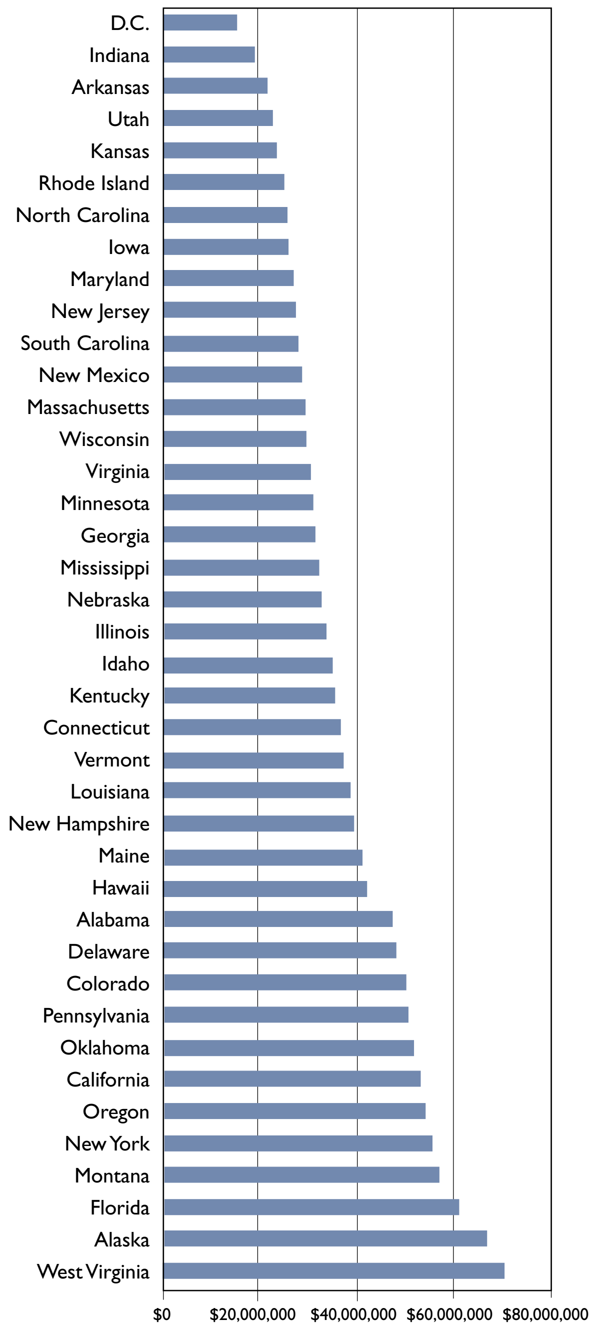
A second study supports the conclusion of the NCCI analysis. This one, completed by John Burton of Rectors University, examines benefits paid per 100,000 workers. This study covered 44 jurisdictions and excluded self-insured employers; however, it tends to support the NCCI analysis. The five states with the lowest loss cost were also among the lowest in benefits paid per 100,000 workers. Among jurisdictions that were analyzed in both studies, these five states were in the lowest 13 based on benefits paid. The five jurisdictions with the highest loss cost were among the 11 with the highest benefits per 100,000 workers. ❑

Table 1
Average Voluntary Loss Cost per Normalized Payroll Distribution (1999 data)

State	Loss Cost	Ranking
Alabama	2.14	5
Alaska	1.46	22
Arizona	1.40	24
Arkansas	1.26	30
Colorado	2.17	4
Connecticut	1.91	10
District of Columbia	1.93	9
Florida	2.75	1
Georgia	1.75	13
Hawaii	1.85	11
Idaho	1.38	25
Illinois	1.72	14
Indiana	0.91	37
Iowa	1.15	33
Kansas	1.16	32
Kentucky	1.51	21
Louisiana	2.23	3
Maine	1.79	12
Maryland	1.28	28
Michigan	1.69	16
Mississippi	1.56	19
Missouri	1.41	23
Montana	2.50	2
Nebraska	1.19	31
New Hampshire	2.13	7
New Mexico	1.27	29
North Carolina	1.30	27
Oklahoma	2.11	8
Oregon	1.71	15
Rhode Island	2.14	5
South Carolina	1.03	34
South Dakota	1.59	17
Tennessee	1.52	20
Utah	1.02	35
Vermont	1.59	17
Virginia	0.94	36
Wisconsin	1.32	26

Source: NCCI

Table 2
Benefits per 100,000 Workers 1996



Living Wage Laws Are Not Helping the Little Man

Have you ever noticed how political developments designed to help lower wage laborers always seem to end up feeding Big Labor? The nation's newest "living wage" law in Santa Monica, CA is putting a completely new twist on this outcome. The law's design is to keep wages up for the low-wage laborer; nevertheless, unions seem to be benefiting the most from this law.

The ordinance not only includes government jobs, but it applies to all jobs within the beach and downtown areas of Santa Monica. This in itself is a big break for unions, who have been trying for years to organize the big hotels and restaurants in the area with no luck.

The law sets a minimum wage for laborers in these hospitality industries. This has raised costs of these labor-intensive industries drastically. But there is a catch. When and if employers enter into a collective bargaining agreement with a labor union representing the workers, the new law no longer applies. In reality, what this living wage law has done is leave a back door open for unions.

Though this type of exemption is normal in the U.S.'s 60-plus laws of this nature, the bias toward union interests seems to be more deliberate with each law passed. Other objections to living wage laws come from Suffolk County, Long Island. This living wage law requires affected companies to make public the names and addresses of their employees, a valuable source of intelligence for local union bosses and organizers.

Faced with pressure to cut costs associated with the living wage law, restaurants and hotels in Santa Monica are taking action. The Le Merigot Beach Hotel is considering offering fewer conveniences to its clientele instead of dropping room rates. This action may cut many jobs. In addition, P. F. Chang is considering eliminating lunch from its menu to stay below the activating threshold for this law, another attempt by a business to lower costs by purging staff.

For businesses to keep their staff intact in this environment, they must accept a collective bargaining agreement at a lower wage, or do away with jobs and keep the living wage. In either scenario, the workingman is getting stiffed. ❑

The Bigger the Better: Not Yet

Ship size is becoming more an issue in today's logistics marketplace. The previous standards for large containerships were about 4,800 TEUs (twenty foot equivalent unit) in the transatlantic and about 6,000 TEUs in the busier transpacific. The exceptions to this are 15 Herculean S-class ships of Maersk Sealand at about 7,100 TEUs. However, due to escalation in the number of large containerships on order around the world, these few mammoths of the sea are likely to become the norm.

Port executives now have the daunting task of getting their ports ready for business. Bigger ships require deeper access channels and berths so these ships can enter the port. Other improvements include creating larger turning basins and constructing cranes with a longer outreach. In some instances bridge clearance will have to be increased to accommodate the larger ships.

In New York and New Jersey construction crews have already begun the process of providing channels and berths for these ships. The channels are being deepened to a depth of 52 feet from their current level of 40 feet at low tide.

Burgeoning Behemoths

Vessel Design	TEU Capacity	Max Draft	Length	Width
IN OPERATION				
Evergreen "R-class"	4,229 TEU	41 ft.	965 ft.	106 ft.
Maersk	4,300 TEU	44 ft.	961 ft.	106 ft.
Hapag Panamax	4,890 TEU	44 ft.	965 ft.	106 ft.
Hyundai	6,400 TEU	46 ft.	997 ft.	131 ft.
P&O Nedloyd	6,690 TEU	46 ft.	981 ft.	140 ft.
Maersk "K-class"	6,400 TEU	48 ft.	1,043 ft.	140 ft.
Maersk "S-class"	7,100 TEU	48 ft.	1,138 ft.	140 ft.
ON ORDER				
Hapag	7,500 TEU	48 ft.	1,050 ft.	140 ft.
OOCL	7,400 TEU	Unknown	Unknown	Unknown
PROJECTED				
Samsung	9,000 TEU	48 ft.	1,083 ft.	150 ft.
LR	12,500 TEU	49 ft.	1,312 ft.	197 ft.
Suez-max	11,989 TEU	56 ft.	1.312 ft.	164 ft.
Malacca-max	18,154 TEU	70 ft.	1,312 ft.	197 ft.

Many dredging programs are underway around the globe, but the number of ports ready to accommodate these ships today is very low. Surprisingly, most ports do not anticipate being ready when the new containerships arrive, but many are trying.

Ports in Tacoma and Long Beach on the west coast, along with Norfolk and Halifax on the east coast are the only U.S. ports ready today. Nevertheless, even if these ports and others get ready with channels and cranes there is an even bigger hurdle: finding dockside space to store the larger volume of containers. Space to expand ports is not plentiful so other methods such as container stacking will be used to efficiently use their current supply of land.

Landside infrastructure is also a constraint on these super containerships. Their enormous capacity puts an additional strain on the roads and railways already in place. Container ship volume has increased 41% since 1995 with little change to the infrastructure. The new ships will put even greater pressure on the system. ❑

If You Bought It, a Truck Brought It

For the first time, total U.S. logistics costs exceeded $1trillion in year 2000. The eye-grabber is that motor carriers account for the largest piece of the pie. To be exact, motor carriers represent half of the annual U.S. logistics costs, totaling nearly $500 Billion. All other transportation modes, railroad, water and air, total only 10%.

As a whole, annual logistics expenditures averaged nearly 15% of U.S. Gross Domestic Product (GDP) from 1960 –1980, as the table shows. However, deregulation of transportation in the early 80's caused costs to decline to around 10% over the following decade. Since 1992, we have had no significant changes in logistic expenditures as a percent of GDP.

To further reduce the percentage of logistics expenditures, fresh and innovative approaches are necessary. Larger trucks to carry more freight and easing the driver shortage would be a good start. In addition, a more efficient supply chain will speed inventory turns and reduce carrying costs, the second largest logistics expense. ❑

Trends in U.S. Logistics Expenditures 1960 - 2000

YEAR	% of GDP
1960	14.7
1970	14.7
1980	16.1
1985	12.4
1990	11.4
1991	10.6
1992	10.1
1993	9.9
1994	10.1
1995	10.4
1996	10.3
1997	10.2
1998	10.1
1999	9.9
2000	10.1

Strange Bedfellows: Labor Unions and Trial Lawyers

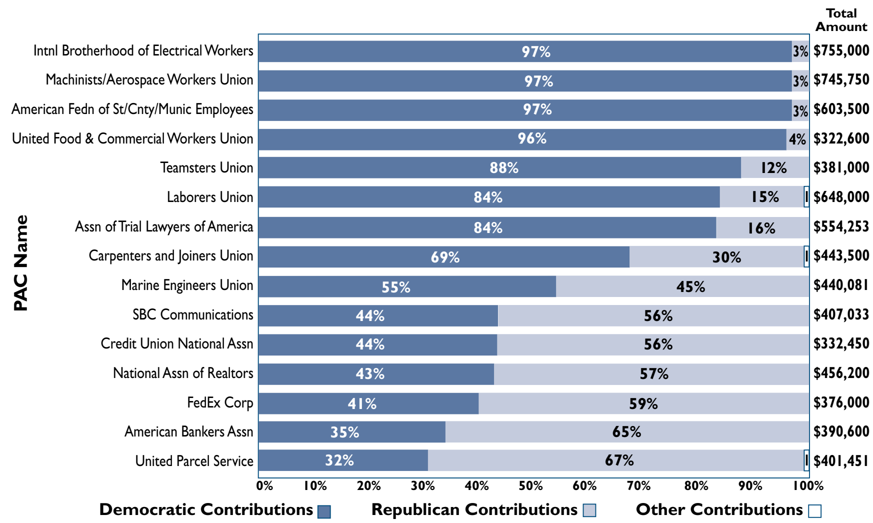
One would not suspect that rank-and-file blue-collar workers and silk stocking lawyers have much in common. But do they…boy, do they ever.

The common denominator that binds them is their thirst for political influence. Labor unions represent 8 of the 15 largest contributors to candidates running for federal office, based on Political Action Committee (PAC) contributions through the first half of 2001. The trial lawyers rank number 5, with the top 4 positions occupied by unions.

Moreover, lest there be any mystery about who supports whom, a quick review of the data will answer that question.

Every union on the list gives more than 50% of their dollars to democrats, and half of them give more than 95% to democrats. Trial lawyers know which side of the bread their butter is on, and channel 84% of their PAC funds to democrats.

Top PAC Contributors for First Half of 2001
by Percent Given to Democrats



War Time Economy– *continued from page 1*

Investors have several supporting arguments for a market rebound. First, the Fed has been dropping interest rates steadily and once the economy has felt the full impact of these changes, an economic recovery is ahead. Secondly, past declines have eliminated most of the overvaluation in some sectors of the economy. Lastly, the Fed and the world's financial institutions have pledged their willingness to do what it is necessary to overcome the problems ahead.

Americans have a long history of getting back on their feet after tragedies. The table displays 10 major crises in our nation's past and the Dow Jones Industrial Average's initial and subsequent reaction to each event. It demonstrates the market can rally quickly once the shock has subsided. Pronounced initial downward drops in the market are often followed by a quick correction upward.

Time after time, the U.S. has displayed its extraordinary gift for recovery. As terrible as the World Trade Center and Pentagon attacks were, their overall effect on a $10 trillion economy is slight. Avoiding rash decisions and keeping our wits will help avoid decisions that cause regret later.

The terrorists failed in their attempt to bring America to its knees by one massive blow to our economy. America is still open for business. ❑

CRISIS	Initial Reaction Date	First Day	Next Day	Following Week	Following Month	Following Year
Pearl Harbor Attack	12/08/41	-3.5%	-2.8%	-1.2%	-0.8%	2.9%
North Korea Invades South Korea	06/25/50	-4.7%	-0.8%	-2.6%	-4.4%	14.9%
Kennedy Announces Missiles in Cuba	10/23/62	-1.8%	3.3%	5.5%	15.6%	33.8%
President Kennedy Assassinated	11/22/63	-2.9%	4.5%	5.5%	7.1%	25.2%
Arab Countries Announce Oil Embargo	10/17/73	-0.5%	-0.3%	1.0%	-7.4%	-32.3%
Nixon Resignation	08/08/74	-1.6%	-1.0%	-6.0%	-13.6%	4.2%
1987 Stock Market Crash	10/19/87	-22.6%	5.9%	3.2%	9.0%	22.9%
US Launches Operation Desert Storm	01/16/91	4.6%	0.9%	0.7%	11.9%	24.5%
Coup Attempt in Soviet Union	08/19/91	-2.4%	0.5%	4.9%	4.4%	14.1%
Market Reacts to Asian Financial Crisis	10/01/97	-7.2%	4.7%	7.2%	8.8%	16.8%
	Average:	**-4.3%**	**1.5%**	**1.8%**	**3.1%**	**12.7%**

A Sure Way– *continued from page 1*

Intermediary ("QI") – the facilitator in both the sale and purchase transactions. The QI helps ensure the exchange is structured properly, meets all Section 1031 code requirements, documents the exchange, prepares the necessary paperwork (Exchange Agreement) and holds the proceeds of the exchange in escrow.

In order to qualify for tax deferral under the tax code, a number of requirements must be met. Both the relinquished and replacement properties must be used in business or held for investment. Also, any property held for investment can be exchanged for any other "like-kind" property held for investment. As defined by the IRS, "'like-kind" includes a variety of developed and undeveloped real estate. Non-qualifying properties that are not "like-kind" include an investor's primary residence and dealer inventory (property "held for sale"). Additionally, the relinquished and replacement properties need not have identical function.

With no limit to the number of exchanges that can be made, the most common reason to use a 1031 Exchange is the indefinite deferral of capital gains tax resulting from a sale. Other reasons to use a 1031 Exchange include investment property transfer from one location to another, cash return improvement, greater investment appreciation, investment property consolidation or diversification, reduced management hassles and 100% of equity investment working for you.

To determine whether or not a tax-deferred exchange is for you, consider the following investment alternatives:

(1) Reinvest in real estate under Section 1031 tax-deferred exchange guidelines or (2) pay the taxes due (assuming 25%) and invest the after-tax proceeds into CDs or stocks. As the chart on page one demonstrates, "tax-deferred" proceeds of $500,000 reinvested in real estate earning an annual rate of return of 10%, grows to more than $1.2 million in 10 years. This represents an increase in wealth of approximately $797,000. Alternatively, after-tax proceeds of $375,000 invested in 5% CDs grow to only $611,000, or an approximate $236,000 increase in wealth. If the $375,000 in after-tax proceeds are invested in stocks earning the same 10% annual return as the "tax-deferred" funds reinvested in real estate, the total grows to approximately $973,000, or an approximate $598,000 increase in wealth. The clear winner of these investment alternatives is the tax-deferred exchange alternative.

The Walker Companies can provide expert advice on achieving maximum wealth creation by keeping 100% of your equity investment working for you. ❑

THE WALKER COMPANIES provide location consulting, brokerage, and facility development services for industrial corporations throughout the United States. For additional information on our services, or to comment on ***The Industrial Outlook,*** please contact:

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