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A Driving Force on Industrial Real Estate
The New Federal Truck Drivers Hours of Service (HOS) Rules

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At first glance, the new hours of service (HOS) rules appeared subtle and non-impacting. The changes seemed to affect a transportation company's operation, not the industrial real estate decisions. In reality, it has created a new cog in the supply chain wheel. The effects are morphing the warehouse and distribution template. Site selection and the ideal facility fit must now elevate new factors into the equation. If the new rules are not taken into consideration when developing the DC footprint, then prepare to be stepped on. After being pushed down for several years, the carriers are now holding the cards.

The rules took affect in January 2004 and allow drivers to drive up to 11 hours followed by a 10 hour break as opposed to the past rules of 10 hours followed by an eight-hour break. The new rules allow drivers to remain on duty for 14 consecutive hours versus the past rules of 15.he one or two hour shifts are not the most impacting provisions. The biggest change impacts how time is accounted. The new HOS rules require all driver time, including delays at a DC, to be included in the total on-duty time. In the past, drivers could go off the clock during idle periods. They were not required to count time spent waiting at loading docks or refueling as part of the work shift. Kirk Thompson, CEO of J.B. Hunt stated in the Spring 2004 issue of JB Hunt Today company magazine, "A truck driver is the only professional I know who is told to be on-time for work, only to be told by the customer that it will take another couple of hours for the trailer to be unloaded. Can you imagine making an appointment for a plumber to come to your house and when he arrives at the designated time, telling him to wait in the car while you have breakfast and maybe take a shower?" However, now there are no timeouts. Every minute counts. In addition, the new rules dictate that when a driver's consecutive 14 hour on-duty time elapses, the driver must stop no matter where they are located. Technically, driving down the road to a rest stop or truck stop is against the rules.

Become more *driver / transportation provider friendly* now and you will experience supply chain savings and improved customer delivery while positioning to maintain a steady operation. If the HOS alterations are not taken into consideration, then prepare your supply chain and your client base for this year's third quarter transportation capacity crunch. The high percentage of industries that reach peak season in the third and fourth quarter, should take special note. It would be wise to negotiate with your transportation service providers as soon as possible; the second half of this year is going to be a bumpy ride. Of course, much of this can be disregarded if budgets are not an issue, paying carriers triple the standard accessorial fees is under the radar, or potentially doubling the current transportation spend to secure capacity is not frowned upon.

The new rules have reduced driver productivity in an industry segment that has a declining labor pool. "All non-driving activities need to be minimized," stated Dan Ross, National Account Manager for J.B. Hunt. "Lost driving time leads to lost driver wages in a market that has been short of qualified drivers for years. The result is increased driver wages and in turn increasing the customer's cost for transportation." The tightened driver capacity coupled by the increasing fuel costs and impacts from the new HOS rules enabled and in some instances forced truckload carriers to hold strong on rate increases and additional line item charges already this year. Proof is in the 2004 first quarter capacity constraints. The first quarter in the truckload industry usually involves "slump plans" in an effort to control costs during the traditionally "slower" shipping season. Subsequently, the third and fourth quarters historically experience strained driver capacity. Tight capacity will be an understatement for this year's second half upcoming seasonal freight surge.

Warehouse and DC managers should be planning now for the distribution and transportation constraints that will inevitably hit them later this year. Real estate decisions and planning will be a key to efficient operations that will attract truckload carriers and enable facilities to use the constraints as a market advantage.

Driver time has become more valuable and distribution centers need to be focused to get the drivers in, out, and on their way with a minimum of elapsed time. Some methods being used include larger yard areas and additional dock doors to provide carriers with the ability to drop both loaded and empty trailers. Drivers are then able to diminish delay times by swapping equipment to a preloaded trailer. Warehouse bay size is also increasing to enable operations to better stage loads which will improve the speed of loading a trailer. DC operations are extending hours and providing staggered appointment times to prevent congestion. Jack Weakly, Senior Vice President of Sales for Transplace stated, "Besides the physical changes to the DC / warehouse environment, process change is also needed to insure capacity and competitive pricing. Shipping and receiving on weekends, or expanding the hours of operation will have a favorable impact on one's carrier base." In addition, some facilities are allocating spaces for the drivers to rest due to the new HOS rule that requires drivers to stop no matter where they are located.

The driver focus has resulted in congestion and quick access to multiple transportation sources climbing in importance. Reducing one Illinois company's mileage to transportation providers resulted in an annual savings of over $200,000. In this case, the transportation savings drove the process and justified the new facility. It will pay for itself while improving service. Outlying locations with excellent rail, interstate, and in some instances barge access are drawing more attention. Joliet, IL is an excellent example as plans for a million square foot spec building were recently announced.

As logistics and distribution are dominant factors in the real estate decisions, the developing DC will reflect a signature more conducive to the efficiency of the truckload driver. Increased yard space, extended hours of operation, improved dock door / space ratios, and increased column / bay spacing are all features that will be the selling aspects of the spec buildings within new business park developments. In addition, the analysis of the supply chain and the site selection process will be more cognizant of an areas congestion and convenience to multiple transportation sources. The raised level of importance on these factors will be guiding the industrial real estate decisions for companies that place a critical level of importance on responding timely to their customer base and rely heavily on transportation providers within their supply chain – in other words, almost all companies.

Newsflash - On Friday, July 16th, a federal appeals court threw out the new hours of service regulations. In summary, the court found the rules "arbitrary and capricious" because the Transportation Department failed to consider driver health. The rules are to stay in effect for 45 more days. The government now has the ability to weigh any legal challenge of its own or it will be back to the drawing board. Look for a hybrid of the old and new rules to emerge just as we enter the transportation critical season.

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