

## Opinions

# 3 hot topics that can impact CapEx logistics

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Changing marijuana laws, weather and design are just a few hot topics today regarding the logistics of CapEx. They are different than they have been in the past, and will continue to evolve and change into the future. Here's what owners and project teams should consider.



By Darlene Henke

CapEx planning for the renovation of an existing property or new construction is a fact of life in hospitality. Owners and their project teams spend months, if not years budgeting, finalizing designs, developing schedules and executing what is hopefully a successful project. Even with diligent planning, outside factors can drive costs increases, delays or additional challenges that the project team might encounter and should take into consideration.

After the 2019 state elections, there are now 11 states that have legalized marijuana for recreational use and 33 states for medical use. In these states, this legalization is affecting labor pools for construction, warehousing costs and creating some driver shortages. Most CapEx projects require a warehouse, usually within 30 miles from the jobsite to receive furniture, fixtures and equipment in bulk from suppliers, then deliver to the site by room or floor for the contractor. In states where marijuana is legal, warehouses that would traditionally be used to store furniture and other products are steadily converting their facilities to instead grow house operations of pot. In cities like Sacramento, California, for instance, warehouse prices have increased 30% to 40% since legalization, limiting available warehouses nearby. Owners have a choice to pay higher prices, or look to counties outside of Sacramento. The downfall of goods being stored farther away is that it limits quick access by the general contractor during installation and sometimes can have higher delivery costs. Other markets that have noticeable pot related changes in them include Colorado, Maryland and Washington.

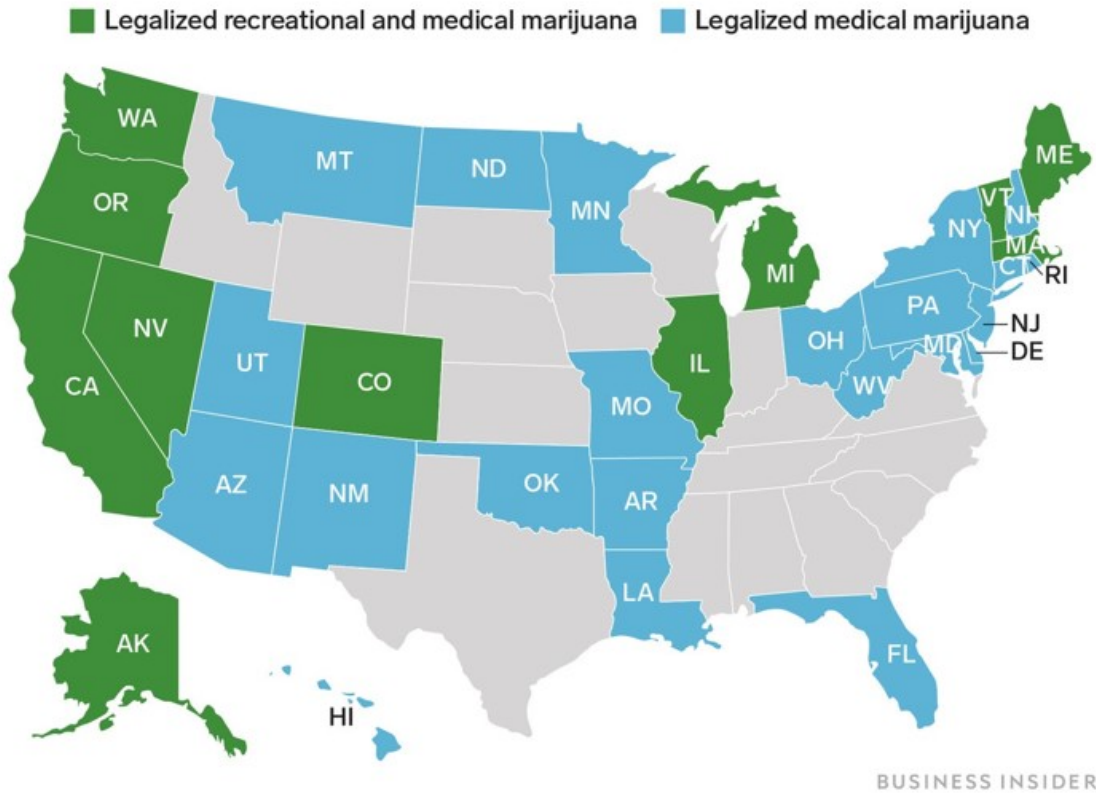
States like Illinois just approved recreational marijuana in 2019, and the trend is expected to continue to grow across the U.S. Any owner planning to have projects in one of these states should budget a slightly higher cost of warehousing vs. states where legalization has not occurred yet.

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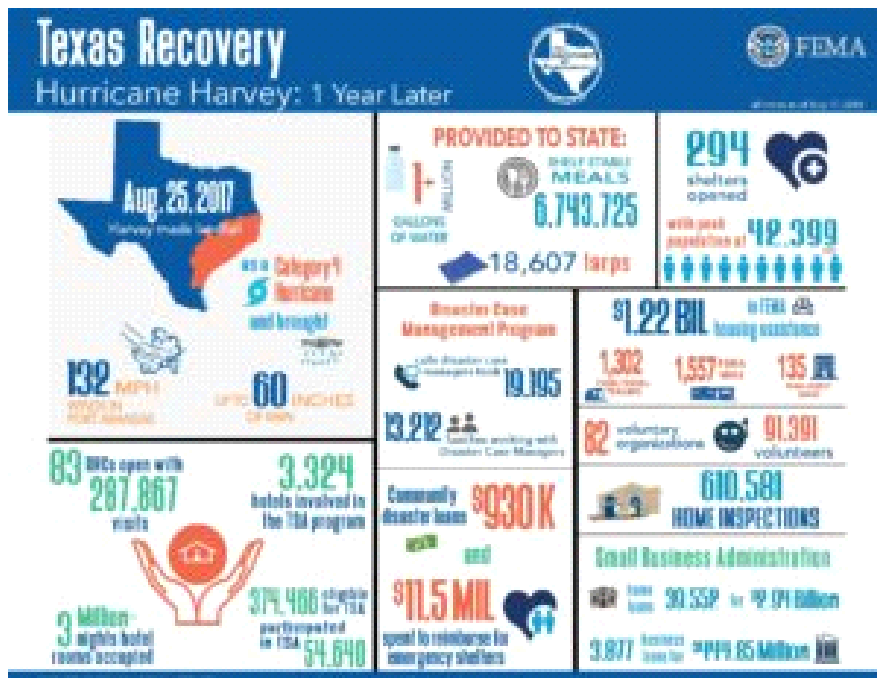
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# States where marijuana is legal



Additionally, marijuana is affecting the pool of available on-site labor and delivery drivers. In certain states it may now be legal to consume marijuana, however most general contracts and trucking companies still require their employees to pass drug tests and have zero-tolerance drug policies. Unlike alcohol that is out of your system usually within 24 hours of consumption, marijuana can be present for as long as 30 days after consumption. Denver, as an example, is experiencing a shortage not just for warehouses and trucking companies that need delivery drivers, but also the public transport systems. There is even a current shortage of snow plow drivers.

Outside of pot issues, if your project is in a coastal region or the Caribbean, the sad realization of the last three years is that natural disasters have been more common and more severe. When developing budgets for these regions, contingencies should not only include construction costs for any damages to the asset, but warehouse, trucking and labor costs can see an impact of 50% to 100% over the normal cost after the recovery process has already started.



In 2017 when Hurricane Harvey hit the Houston area, federal organizations such as FEMA offered rates more than double the normal price to trucking companies to transport goods into the region for recovery. A truckload of carpet from Dalton, Georgia, to Houston that normally would cost \$1,500 to

transport increased 125% to \$3,375 per truckload during the six month recovery period after the storm.

Cost increases were seen across the board on inbound shipments from all over the U.S. Labor for markets affected by natural disasters also spiked in costs due to the demand. Often times local providers cost's increase, and additional costs are incurred by having trades come in from outside of the region— causing additional costs for housing and travel on top of just the normal labor rate. This trend was not only present in Houston, but also Panama City Beach, Florida, in 2019 after Hurricane Michael impacted the area.

Finally, another trend, driven more by design than changes in laws or Mother Nature, centers around headboards and other guestroom case goods. A headboard used to be one piece that easily attached to the wall over the bed. Today, headboards can be up to seven pieces, may include an electric component, and act more like millwork in the room—sometimes with nightstands and other pieces connecting to make one large focal point.

In most cases, the new style of headboards with their components weigh far more than they did in the past, and the pieces themselves are significantly larger—sometimes requiring three to four laborers to move just one piece. These larger pieces require more trucks to transport and more space on site or in the warehouse to store and install. The new headboard designs can also create challenges for warehouses and labor on site, ensuring component parts all match and are delivered in sequence along with the rest of the FF&E going into the rooms. In most cases, when a headboard is requested, it now comes in five to seven boxes that are required to all match vs historically what might have been only one piece.

Changing marijuana laws, weather and design are just a few of the hot topics today regarding the logistics of CapEx, they are different than they have been in the past, and will continue to evolve and change into the future. Owners and project teams can implement contingencies and strategies to prepare for issues as they arrive. One best practice to keep in mind is that some of the things that happen at the end of the CapEx process can have a real impact on schedule and budget.

To learn more about any of the topics in this article, please contact [info@auditlogistics.com](mailto:info@auditlogistics.com).

Darlene Henke, President and CEO, co-founded Audit Logistics in 2002. Ms. Henke and Audit Logistics are recognized leading experts in the hospitality sector, with almost \$3 billion of FF&E shipped and over 8,000 hotel projects completed since the company's inception. Audit Logistics provides third party transportation, warehousing and installation services to the global hospitality industry. Today, the firm still provides the only fully auditable and 100% transparent logistics services available to the hospitality industry and has four offices in the U.S. located in Boulder, Colorado; Gig Harbor, Washington; Atlanta; and Chicago.

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