

Position Paper

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5 predictions for 2024 impacting industrial real estate

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Going into the start of the New Year, we wanted to share 5 predictions for 2024 that will impact industrial real estate, but first, we wanted to provide a little context.

As the fictional character Joe Friday used to say on the popular old TV series *Dragnet*, “Just the facts, ma’am.”

#1: Supply chain strategy drives industrial real estate decisions

To be a trusted business adviser on industrial real estate means that one must understand supply chain management.

Supply chain executives look to network-optimization consulting initiatives to help provide answers to the following big strategic questions:

- How many facilities do we need?
- Where should they be located?
- How big should they be?
- What mission do they serve?
- Why? What are the related cost/service trade-offs?

The world of supply chain management has been in constant change, and that influences industrial real estate in different ways, but remember that overall objectives remain similar:



Reduce Cost



Improve Service



Mitigate Risk

#2: “You must know the past to understand the present”

Famous astronomer Carl Sagan was quoted as saying, “You must know the past to understand the present.”

With that in mind, let’s take a quick step back in time to consider some interesting observations impacting supply chain management and therefore industrial real estate:



- **1980** – No laptops, no cell phones, no internet
- **1980s** – U.S. businesses start outsourcing to China
- **1982** – The term “supply chain management” was first coined
- **1985** – Jeff Bezos’s Amazon makes its first book shipment with 21 employees
- **1990** – Most U.S. distribution networks consist of only 1-8 DCs
- **1990s** – Customers expect delivery of products to their home in 3-4 weeks
- **1995** - The internet and the World Wide Web become established phenomena
- **2000s** – Companies break down functional silos to view their business more comprehensively (advent of supply chain organizations)
- **2005** – Amazon starts “Prime” service; 2-day delivery becomes the new norm
- **2020** – Companies diversify away from China; reshoring/nearshoring a trend
- **2023** – Amazon ships 6 billion packages per year, employs 1.5 million



What are our top 5 supply chain predictions for 2024?

#3: “The future’s so bright, I gotta wear shades”

In 1986, the band Timbuk 3 came out with a hit song titled “The Future’s So Bright, I Gotta Wear Shades.” In the fast-moving world of supply chain and industrial real estate, we do indeed believe the future is bright.

Our predictions are based on research, interviews with numerous supply chain executives, intuition and years of experience working with corporate occupiers, supply chain executives and industrial investor/developers.

Here are our 5 predictions for 2024:

1

Doubling down on warehouse automation and robotics

Attracting and retaining labor will continue to be an ongoing challenge for companies. This is not a trend. Population trends in the U.S. are flat. Companies need to find ways to do more with less. The technology around automation systems and robotics will continue to improve exponentially, and the costs will continue to come down, making investments more attractive even to smaller and midsize companies hungry to drive down handling costs, speed operations and mitigate risk.

2

Inventory management will be the huge beneficiary of AI

Sales forecasting has always been impossible, so sales and operations planning (S&OP) has always been a big supply chain challenge. Solving it can result in monumental operational and sales benefits. AI and other predictive analytic tools help companies build propensity models that can help ensure the right product in the right place at the right time, which is the holy grail of supply chain management. Inventory carrying costs are one of the top three logistics operating expenses; however, with interest rates at historic lows and running flat for the past 10 years, the focus on inventory management became less intense. This will change as interest rates have risen and companies get smarter thanks to AI.

3

Sustainable supply chains will take on a higher priority

For most companies in the U.S. today, sustainability initiatives are a “nice to have” versus a “must have.” This is changing. There will be considerable top-down (boards of directors) and bottom-up (consumers) pressure demanding sustainability goals and results. The biggest focus areas for sustainability improvements are not facility related but in supply chain. According to the U.S. Environmental Protection Agency (May 2023), transportation-related emissions account for 29% of total U.S. greenhouse gas emissions. Among other things, this will result in more-efficient packaging to optimize trucks, planes and ships, and more distribution facilities positioned closer to the end customer or consumer.

4

Business-to-business supply chains will change rapidly

This is the big elephant in the room. The business-to-business (“B2B”) supply chain market is twice as large as the direct-to-consumer (“B2C”) market. Amazon changed the game of supply chain when it introduced and delivered on its Prime two-day service. Customer delivery expectations were changed forever as individuals now believe they can get anything they want within two days and for “free.” These customer service expectations are having a trickle-down effect on the more traditional B2B supply chains, as their customers are now becoming increasingly demanding. This is driving a need for expanded distribution networks, which obviously has a positive impact on industrial real estate demand.

5

Manufacturing will continue to expand

The growth of new manufacturing operations in the U.S., Mexico and Canada makes sense and is absolutely real. Companies are actively seeking to diversify away from China, as well as to reduce complexity, freight costs and transit times. The federal government is also providing incentives in the way of the CHIPS Act, the Inflation Reduction Act and the newly established White House Council on Supply Chain Resilience. Companies are moving to more “regionalized” manufacturing and/or sourcing strategies to reduce risk. Manufacturing projects typically involve numerous suppliers and require distribution, which will create positive demand on industrial real estate.

In closing

There are a lot of changes happening in the world of supply chain, most of which are incredibly positive and exciting. Of course, there will always be disruptions, but from our perspective, the future looks bright for supply chain management and industrial real estate.

Happy New Year and best wishes in 2024.

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