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The New Industrial Ecosystem

Resiliency in manufacturing, warehousing, and distribution requires a robust, data-driven approach to understanding the financial and operational influences across the new and ever-evolving industrial ecosystem.

Amy Fobes, Managing Director , Savills

Q3 2022



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Far beyond ports, hubs, and transportation networks, the new industrial ecosystem requires a cross-section of executive decision-makers to take a proactive data-driven stance on location strategies and logistics planning. Shifts across complex, geopolitical and socio-economic systems are happening too quickly, and the costs are too high not to rely on a data-driven approach to meeting the common industrial sector challenges that include the following:

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- Highly competitive site selection due to low inventory of available space and soaring real estate costs
- Sharp increases in costs of supplies, inventory stocking, transportation, and energy
- Intense pressure on supply chain logistics to meet accelerated e-commerce demands
- Global supply chain bottlenecks impacting hyperlocal markets and communities as corporations strive to deliver on the promise of same-day or just-in-time offerings

- Ongoing shifts in where people live, are willing to work, and at what pay rate

As the economy shifts rapidly, the pressures on industrial executives and demands for data from five years ago to today have transformed radically. An awareness of the new industrial ecosystem and the ability to leverage multifaceted, robust location data are now critical core competencies of the most successful industrial executive strategies and tactical playbooks. Establishing a competitive edge and maintaining resiliency during these turbulent times and well into the future is a data imperative.

Navigating the Unknown

The foundational and more traditional components of industrial analytics from the last few decades — such as measuring logistics, tracking freight costs, financial structuring of real estate assets, and continuous management of portfolios for optimization — remain important to driving operational efficiencies. In today's world, successful executives need a firm grasp on the data that reflects what has changed, how to quantify change, how to mitigate risk going forward, and how to leverage data to make location decisions with confidence. Most importantly, what are the data and analytical workflows required to navigate the new industrial ecosystem?

What is the new industrial ecosystem?

The new industrial ecosystem is the result of accelerated demands and unexpected stressors placed upon supply chain networks due to dramatic changes in consumer behaviors combined with population migration, community expansions and contractions, shifting energy costs, and corporate desires to strive toward and achieve ESG metrics.

While office occupancy rates were plummeting throughout the pandemic,

“The ability to leverage multifaceted, robust location data are now critical core competencies of the most successful industrial executive

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demand for industrial real estate soared. The boom in the industrial sector was fraught with challenges, frustrations, and outright fear for every decision-maker as inventory for industrial land and buildings was rapidly acquired. A new industrial ecosystem emerged from the pandemic that reflects a convergence of socioeconomic indicators that until now were disparate or loosely coupled from market to market.

One of the biggest bellwethers of change may be in household-level conversations about the industrial sector. Both inside and outside of businesses, our day-to-day life banter about “supply chain issues” has become commonplace. Traditionally, unless you worked in logistics, no one made mention, let alone worried about supply chain logistics. Yet today, most consumers have direct experience with or emotional reactions to logistical bottlenecks coursing through the economics of day-to-day life. Concerns and fears of scarcity that spiked through the initial lockdowns of the pandemic are continuing to reverberate and, at times, are having significant household-level consequences across markets, regions, and countries. An increase in e-commerce demand and pressure on same-day delivery services has placed an ongoing burden on logistical networks and the development of new warehouse and fulfillment centers.

According to Digital Commerce 360, “When digital revenue in 2021 is compared with 2019, online spending soared by 50.5 percent. Although last year’s e-commerce landscape initially appears far less impressive than its 2020 counterpart, the fact that online merchants maintained gains — and even grew — is noteworthy.”

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The rising cost of living

The rising cost of living across every aspect of day-to-day life has been unsustainable for many people across densely populated markets for years leading up to the pandemic. Migrations of populations from more costly Tier 1 cities have been carrying important labor and talent pools to new markets, spiking growth in unexpected communities across the country.

These population migrations have created new demands for the industrial sector at the zip code and neighborhood level as new customer service areas with high consumer and e-commerce demands emerged. Population migrations were already shifting before

the pandemic but accelerated throughout the pandemic as people sought to take advantage of remote and hybrid working models by moving to more desirable live/work/play lifestyle destinations or to less costly markets to maximize their purchasing power.

Lower interest rates incited a residential buying frenzy with 40 percent of new home purchases occurring in the first half of 2021 and leaving large service gaps across distribution networks in newly booming communities and neighborhoods. From ordering essential household

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goods to acquiring supplies for fixing or remodeling homes, the pressures felt across the industrial sector to meet new consumer demands and purchasing behaviors were and remain daunting.

Where are the workers?

As office occupancy rates declined through new workforce and workplace offerings, corporations accelerated shifts across their real estate portfolios to capitalize on population migrations and compete for talent in Tier 2 markets. Shifts in populations and businesses impacted wage rates, residential home values, and competition for talent.

To gain a competitive edge, global leading companies increased wages and offered sustainable benefits across every vertical industry, especially the industrial sector. For cash-positive companies, they increased wages and benefits to compete for, attract, and retain labor to remain operational while other companies have struggled to recognize the changes in the marketplace and respond effectively.

Environmental, social, and governance moves to the forefront. Commercial real estate investors, developers, and occupiers are beginning to recognize the strategic value, cost savings, and need to address governmental mandates that require the adoption and compliance of environmental, social, and governance (ESG) initiatives. The data shows that 40 percent of greenhouse gas emissions come from buildings, an 11 percent increase in productivity occurs due to improved indoor air quality, and 25 percent of companies tie executive pay to achieving ESG metrics. As such, sustainable operations, financial success and growth within the new industrial ecosystem requires a strategic lens into energy analytics along with health and wellness metrics for workplace success.

Population migrations have created new demands for the industrial sector at the zip code and neighborhood level as new customer service areas with high consumer and e-commerce demands emerged.

Responsive Strategies and Informed Tactics

Recognizing the new industrial ecosystem as a complex and interdependent geosocial economic driver that encompasses consumer, labor, and energy analysis can inform investors, developers, owners, and occupiers on the data needed to navigate the unknown. Building data workflows to support and incite collaboration across executive decision-makers from multiple lines of business has become a critical core competency for the most successful industrial organizations spanning global firms to up-and-coming startups.

Organizations that leverage data and implement analytical workflows are those that are best equipped to respond to the new industrial ecosystem as it continues to evolve.

Amy Fobes, Managing Director , Savills

Amy Fobes is a managing director at Savills North America, where she is responsible for business development of location economics and

professional services for the industrial sector. Amy has 25 years of experience in analytics, communications, and sales. Additionally, she has worked at global leading technology providers, such as ESRI and Sun Microsystems, as well as for innovative data processing and labor analytics firms.

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