



# The Industrial Sector: Taking Stock of Market Vitality

As the office market regains its occupancy after two years of havoc, industrial real estate continues its decade-long upward trajectory.

*By John Salustri*

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## **TABLE OF CONTENTS**

**THE OVERVIEW** [Page 2](#)

**INDUSTRIAL BY THE NUMBERS** [Page 5](#)

**THE TRIPLE-NET LEASE: A MATTER OF CONSIDERATION** [Page 9](#)

**BEHIND—AND BEYOND—THE AMAZON EFFECT** [Page 13](#)

**TRANSPORTATION AND OTHER SOURCES OF AGITA** [Page 17](#)

**THE SUSTAINABILITY “STICKY WICKET”** [Page 20](#)

## **THE OVERVIEW**

Happily, it seems that the initial uncertainty brought on by the COVID-19 pandemic is shrinking in our rearview mirrors, boding well for all real estate asset types. This is especially true for the office sector, where we finally are seeing a growing return to places of business, albeit under very different rules of engagement.

While we wait for that ship to turn around, the industrial real estate market continues to sail under a full head of steam. In this long-vibrant sector, that hoped-for prospect can only promise more upside.

That is not to say that the sector is free of challenges, although many of these seem to be founded in the rapid overdrive of consumer demand for goods brought about by the pandemic and a market that struggled to keep up. In that way, one could say it is a victim of its own growth. But growth here is the operative word. COVID-19 created a bifurcation between sectors—those that suffered and those that thrived. Industrial is obviously in this second column.

The industrial market stands apart in other ways, as well. One property manager we spoke with described the assets she manages as “shoeboxes turned upside down.” It was a simple description of a product type that, at least prior to 2020, did not garner the splashier, bigger-ticket headlines of some counterpart sectors.

She was referring mostly to the nature of management, but the description also speaks to what often amounts to a utilitarian building design and use. Visually, warehouse and distribution spaces cannot compare with the glossy exteriors of other, flashier product types where curb appeal is key. Instead, function is the governing rule here.

But flashy is as flashy performs, and investors and developers—many of them refugees from other product types—are taking note.

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An emphasis on function and economic fortunes are not the only points of distinction between the office and industrial sectors. Management approaches also can be very different, thanks in large part to the nature of the lease agreement. Most industrial managers have a triple-net, arm's-length restriction to deal with, which leaves much of the building's performance to the whims of the tenant, a fact complicated greatly in multi-tenant arrangements.

Some creative property managers are finding ways to partner with occupants to overcome these hurdles and create mutually beneficial strategies such as more cost- and energy-saving utilities. (Due to those lease-driven restrictions, this Deep Dive also will include the insights of corporate occupiers about market details and their relationships with their property managers.)

Net-lease workarounds are not the only challenge for industrial real estate professionals. And here the topic turns mostly to the much-publicized "Amazon effect," a slight misnomer since e-tailers of all sizes are vying for space. Amazon, of course, is what one occupier called the 800-pound gorilla, hunting for—and snaring—prime space in markets large and small. That big, long smile in their logo might be due to the deep pockets behind it, deep enough to snatch up prime locations and A properties, while stockpiling available materials for future builds, often leaving other space hunters out in the cold. (More on whether or not this growth is sustainable for Amazon later.)

But sources say that Amazon and its kin are not the only fly in the industrial sector's soup. Also swimming therein are transportation costs, labor concerns and their impact on the supply chain.

But neither gorilla-sized space competitors nor trucking woes can overshadow one basic fact: industrial is one hot sector.



**“Industrial property managers can report to up to six-plus clients in any given day.”**  
— Maggie Amaya, JLL

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## INDUSTRIAL BY THE NUMBERS

When you hear “industrial,” you may think of manufacturing, but that only makes up about 20 percent of the total market. For the purposes of this Deep Dive, we will be focusing on the larger warehouse and distribution footprint specifically.

“We’re in the longest period of expansion for industrial fundamentals ever,” says one source, referring to positive net absorption. Breaking that growth into four tiers, he starts the trajectory in 2010, as we were emerging from the Great Recession. “The industrial market was coming out of a period of significant oversupply. Then, fundamentals began improving at the same rate as the gross domestic product.” Digital sales started feeding the sector in 2012, as more retailers found that they needed more space, mostly in core markets, to get products to consumers.

The second tier came in short order as industrial demand began to outstrip supply. “We saw quicker absorption of available space and, in turn, development started to come back,” he says.

In 2017, tier three kicked in as retailers launched major expansions to service the growing number of online customers. “That’s when we saw vacancy rates start to plummet and rents increase,” he says. It is also when third-party

**“All industries, whether it’s distribution or manufacturing, are looking at utilizing more technologies to be productive, but also much more environmentally conscious.”**

— James Breeze, CBRE



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logistics operators (3PL) entered the picture in a big way. The concept of outsourcing warehousing and distribution services long predated this explosive growth period, but the value of the option became clear.

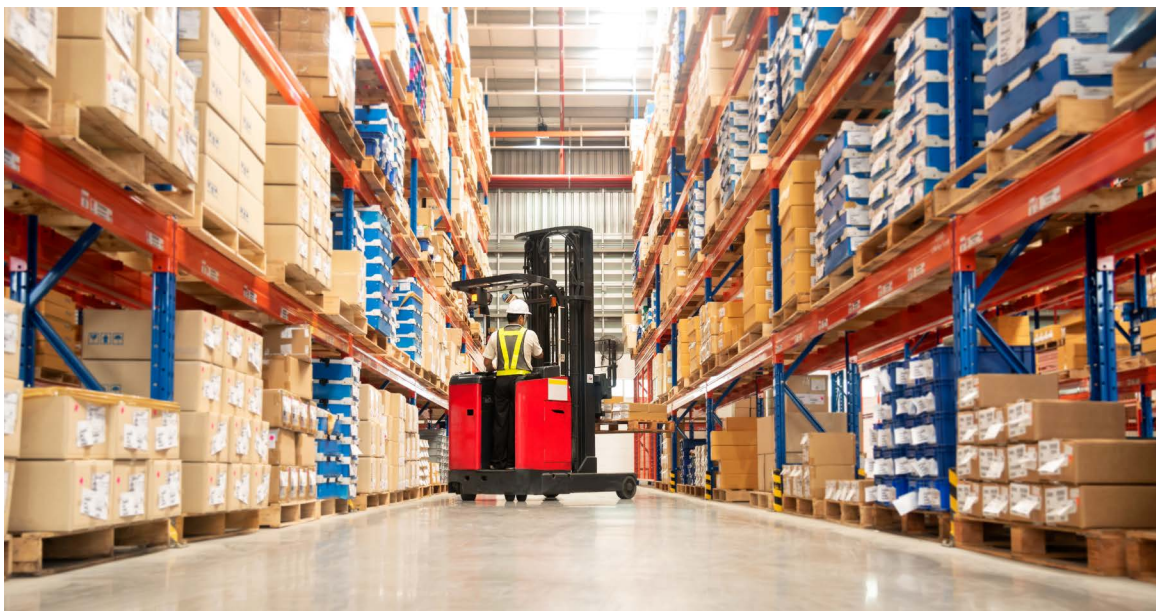
Of course, COVID-19 signaled the start of tier four, ushering in “a whole new level of record-breaking fundamentals,” with performance numbers that are impressive indeed. Such as the April 2022 rental growth in the United States, which CommercialEdge puts at \$6.47 cents per square foot. While flat with March numbers, it shows a year-over-year increase of 4.4 percent.

But that is for in-place leases. Orange County, California, leads the charge in rates for new leases. This makes sense, given its proximity to the nation’s two largest shipping ports—Los Angeles and Long Beach. (Full disclosure: Port rankings vary by source. New York/New Jersey; South Louisiana; Houston; and Savannah, Georgia, also vie for the title, depending on who is doing the counting.)

In April, Orange County posted average leases of \$15.55 per square foot. Following suit were Los Angeles at \$13.94 per foot, the Bay Area at \$12.16 and Miami at \$10.25.

Such fundamentals, of course, catch the eye of investors and developers, and not just in the primary markets. Cities like Philadelphia, Denver, Indianapolis, Columbus, Ohio, and Memphis, Tennessee, “all set new-supply records in 2021, each delivering more than 10 million square feet,” said CommercialEdge in a recent report.

Much of the capital behind that is coming from investors who traditionally worked in other sectors, office and retail, for example. Prime-market opportunities might be their first choice, but, says one contributor, “Institutional owners are making that difficult because they already have the relationships,



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and they know how to buy this stuff.” Market newbies are finding solace in secondary and tertiary metros and Class B assets. “Everybody wants to try to get into industrial because of the safety of it.”

JLL agrees. “With an increased appetite for risk amid improving economic conditions, expect more capital to flow toward secondary markets as investors chase higher yield,” the firm reports.

Developers, meanwhile, “delivered 90 million square feet of new inventory in Q1,” says JLL, “barely moving the needle on vacancy.”

During that time, the construction pipeline grew to 531 million feet, “by far the most we’ve ever seen,” says one expert, “and that won’t stay on the market very long.”

Behind those numbers is a fervor JLL captures well: “Occupiers are preleasing with greater urgency than ever before, eager to claim space and lock in rents before the market grows even more competitive.” Developers and investors alike share that passion.

And that frustration. While last year closed with a whopping 70 percent increase in the construction pipeline, not all of it is progress. “One reason for the swelling pipeline is that projects are languishing in the construction phase longer than usual due to materials and labor shortages,” JLL explains, with some timelines doubling due to that shortfall and an inability to source products like wood and steel. Hitches aside, “Construction costs won’t apply the brake on development, and some investors and developers believe much more development is necessary to meet demand.”

In the midst of this bottleneck, developers are getting creative. The firm tracks almost 100 conversions of retail, office and manufacturing sites into logistics spaces. “Each conversion falls into one of two broad categories: adaptive reuse or replacement,” says JLL. Top choices for such activity include distressed malls and big-box stores, which offer “large floorplates, high ceilings and massive parking lots, along with great access to major thoroughfares.” Which is a perfect set-up for last-mile and same-day delivery.

What you’re not likely to see in this creative environment is a concept long popular in other parts of the globe: multistory facilities. If you are seeing them, you’re probably in one of the New York City boroughs, or the Goose Island industrial sector of Chicago, where a \$250-million multitier facility is poised to come out of the ground. Why not more? Says one source: “They’re very expensive to build and the second- and third-story docks have a difficult turn radius.”

So, the industrial space race is on. But once a facility is secured, the challenges are not done with. Certainly not for the property manager.



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## THE TRIPLE-NET LEASE: A MATTER OF CONSIDERATION

Remember the shoebox? This is its application to property management: “The tenant takes care of everything on the inside of the shoebox. The property manager takes care of everything outside—common areas, landscaping, resealing parking lots, window washing.”

Here is the triple-net lease arrangement at work, wherein the tenant is typically responsible for maintenance, utilities and taxes. It creates a hands-off, or at least an arm’s-length, relationship between tenant and manager. “We hand them the keys,” says one contributor, “and the inside of that box is theirs.”

Well, not quite. And therein lies the rub. “We’re still responsible for the asset,” states one source. “Even though it’s a triple-net, we still have to perform periodic tenant inspections to ensure they’re doing whatever they need to do according to the lease.” This, however, does allow the manager the chance to “see what the tenant’s business is, how they operate and how they’re taking care of the building.”

In all, manager/tenant relationships are typically reduced to a matter of considerations—providing advice for the tenant to take or not. The inspections provide an opportunity to get in front of the tenant and give them solutions to consider. It provides, as one manager states, an opportunity to get to know the tenant better and find clear ways of assisting them in their mutual goals.

The distance imposed by a triple net is often the way corporate tenants want to proceed, as one occupier explains: “It makes sense because we control the costs and what we need to do in order to meet our lease obligation. We can choose when we utilize our CapEx.” Those decisions are informed for the tenant, at least in part, by the remaining life of the lease, and now, by recently rolled-out balance sheet rules from the Financial Accounting Standards Board (FASB).

The new standard, dubbed Topic 842, has actually been on deck for years, delayed in large part by the monkey wrench COVID-19 threw into operations, as well as FASB’s recognition of the complexities corporations faced in achieving compliance. The rules “put a new wrinkle on expenditures because you have to present the entire value of the remaining obligation of that lease as a liability on the balance sheet,” says the occupant. (This includes so-called embedded leases, where the “L” word may not even appear, such as in the rentals of forklifts or electric charging equipment.)

Understandably, the arm’s-length relationship can hamper such owner/manager initiatives as reducing the facility’s carbon footprint. “We’re considering modifying our lease language to require tenants to provide us with utility information,” says one professional. “This way the landlord has a right to ask. Otherwise, we can ask, but we can’t force the tenant to provide us with that information.”

Another contributor has already folded into the lease agreements that tenants perform quarterly HVAC maintenance and annual service. “We’re trying to

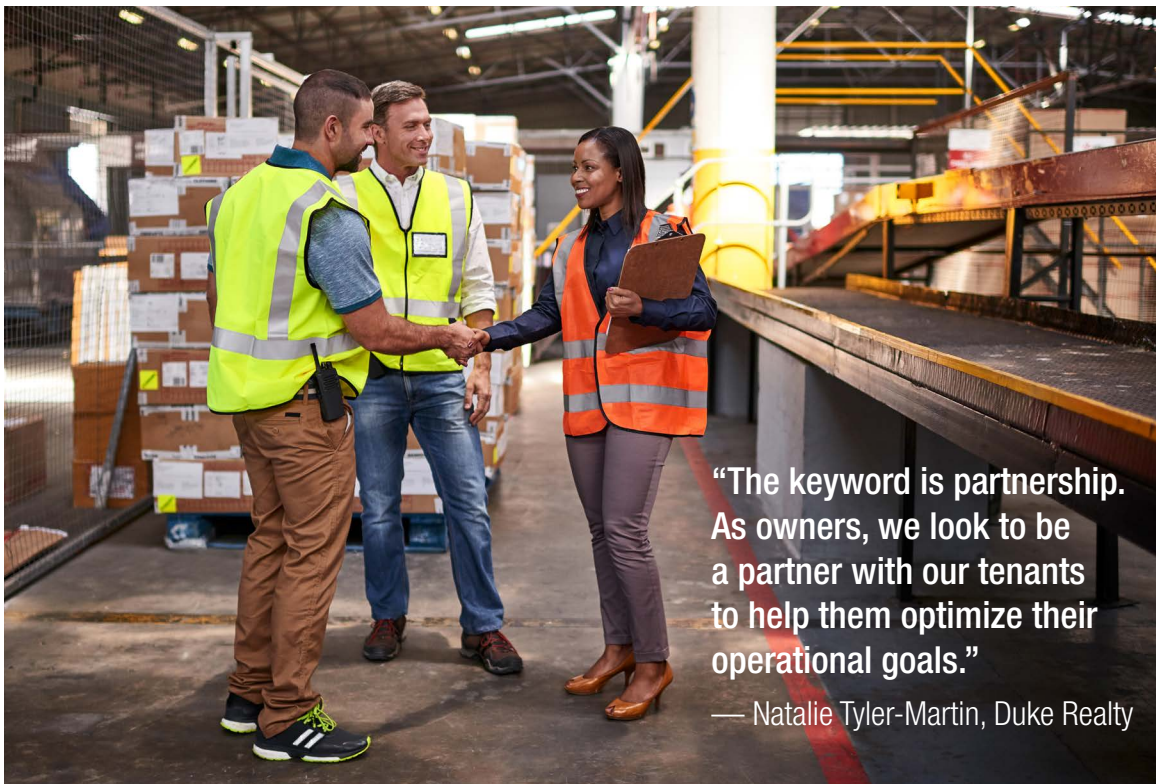
add smart meters to our buildings so we can capture that data and then work with them to modify lighting and other systems,” says another contributor. “We want to make the relationship more than just, ‘Good luck, call me when the roof leaks.’”

And “more” is called for because, to the extent that sustainability is a part of an owner’s mandate—or, increasingly, the mandate of a municipality—more than luck will be needed.

“I can tell you that owners aren’t going to want to spend the money it will take to replace a unit just because it’s more energy efficient,” says one industrial manager. She says she is working with her BOMA local association to “engage our mayor and council now because, if we don’t have input on new energy efficiency mandates, we will be handed a set of requirements we won’t ever be able to achieve.”

She says good stewardship is the goal, but it is hobbled severely by “our leases and what the tenant is responsible for.” (A closer look at the environmental issues the industrial market is facing will be explored later on.)

Tailoring the lease language to fit the need is, of course, a game two can play. As one corporate occupier explains, he enters an agreement with “certain non-negotiables.” Riders to leases are common, spelling out such key issues as remediation. “When we leave a building, we do the remediation, with an independent third-party source to verify our work.”



**“The keyword is partnership. As owners, we look to be a partner with our tenants to help them optimize their operational goals.”**

— Natalie Tyler-Martin, Duke Realty

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Changing the lease language to hand greater control over to the property manager would essentially morph a triple-net into a double. “It’s a fine line we walk here,” says a property manager, noting that she wants teeth in the language sharp enough to require the tenant to fork over that sort of information. “You can’t fix what you can’t measure, but once we have that data, we can start making recommendations.”

Triple-nets might be the most common type of industrial lease, but they are not straight across the board, and that is dictated largely by local trends. One property manager says that in her market, modified gross leases are a popular alternative, essentially splitting operational costs between tenant and landlord, giving the latter a bit more direct control.

We spoke with a corporate occupier who uses triple-net and hybrid lease types mostly, with one or two arrangements based on a straight gross. The arrangement with property management, then, depends on who the landlord is. There are some mom-and-pop owners who prefer to handle it all themselves, and some institutional owners who will have in-house or third-party providers, such as a CBRE.

If the asset is on a triple-net, “We tell the property manager that, depending on what their question is, we don’t want them to bother the plant manager,” he says. They must call HQ or the firm’s lease administration company. “We try to control those conversations. Our whole focus is on eliminating as much outside noise as possible so the plant can focus on its day-to-day work.”

It should be noted here that whatever may or may not be in a lease is often a point of contention in this frenzied acquisition market as new owners bring in their own property management teams. Because of this turnover, “A lot of the time, they don’t know the assets or the leases and what they’re responsible for,” says one tenant.

Leasing arrangements and the challenges they present to management are not the only point of differentiation between office and industrial managers. When a roof leaks, “I get the call,” says more than one industrial manager, “not the maintenance engineer. Me. We’re the ones to identify what’s going on, and I make the next call.”

There is also a differentiation in amenities. Many of the property managers we spoke with say that the shoebox effect is in play here, and functionality is the key. “Unlike office tenants, industrial tenants are focused on business and productivity,” was a typical response. “They want whatever is going to make their lives easier and get their product out faster.” A food truck or picnic area are the typical extent of industrial amenities, and maybe an expanded lunchroom.

An exception to this rule comes when tenants have reduced their office spaces post-COVID and moved those functions into their warehouse/distribution facilities, creating a flex arrangement that brings an office vibe to the shoebox. “Employee comfort and convenience become more of a focus,”

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says one source. But again, this is the exception, with so-called flex space representing only about five percent of the market total.

There is also a differentiation in scale that exists between the two market sectors. “Office managers for the most part are onsite and manage one property with an entourage of onsite support staff,” says a contributor. “Industrial managers might have 10 to 20 buildings at the same time.”

But for one manager, such differences are overshadowed by one major commonality: “It’s all customer service, it’s all problem solving. I’ve done Class A office and Class A industrial. Yes, the problems you’re solving are different, and yes, we’re the first ones to get that midnight call. But it’s all the same focus on service.”

That focus can even overshadow the restrictions imposed by net leases. While many tenants are self-sufficient and responsible for certain things, “My way of operating with my tenants is to be there—always—as a resource for them,” one property manager comments.

And, human nature being what it is, just as in the office market, many tenants simply don’t read their leases, “so there’s a lot of early hand-holding, especially if it is a small startup or mom-and-pop.”

Amazon, of course, is *not* a mom-and-pop.



**“Typically, tenants are happy with a well-managed property and a property manager who responds quickly and professionally.”**

— Eileen Lewis, Torch Properties

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## BEHIND—AND BEYOND—THE AMAZON EFFECT

There is much talk about the Amazon effect, referring to the mega e-tailer squeezing other likely tenants out of the local market, or at least leaving only table scraps for their choosing.

Indeed, Amazon is the largest digital shop. Last year was a “rare” year for the retail destination, says Digital Commerce 360, simply because its growth fell short of 20 percent (but only by 1.6 percent.). Nevertheless, net income for the year clocked in at \$33.36 billion, an increase of 56.4 percent, enviable to outsiders at least.

The drop-off was credited to expense hikes in advertising, marketing, technology and content. Most critical to this report was that its increases in fulfillment costs came to \$75.11 billion, outstripping the other expenses.

But the e-tailer’s glitches were apparently not confined to last year. A reported over-projection of digital business in Q1 caused a return of fulfillment space to the potential tune of 10 million square feet. (By the close of 2021, the e-tailer had leased more than 370 million square feet of North American fulfillment, data center and other assets, and owned in excess of 387 million feet, says one source.) In its Q1 earnings report, Amazon CEO Andy Jassy referenced “ongoing inflationary and supply chain pressures” while expressing confidence in ongoing performance.



**“We’ve been working on some renewals and new sites, and the industrial market is as tight as I’ve seen it in my career.”**

— Samantha Turner,  
Weyerhaeuser  
Company

While Amazon remains the biggest, it is not the only e-tailer churning the waters of the industrial market. The top five also includes (in descending order) eBay, Offerup, Walmart and Wish. Further, e-commerce is not even the top demand driver, according to one source, who says third-party logistics (3PL) providers were the busiest last year, “with about 31 percent of space leased.” He adds food and beverage providers and wholesalers “of all types” to that list.

In fact, JLL lists e-commerce seventh in key industrial growth areas, ranking it behind such categories as 3PL, Construction Materials, Food & Beverage and Traditional Retail.

Two other drivers of space take-up were not retail types but operational strategies: inventory protection and transportation costs, both of which we will explore in the next section.

Still, Amazon did take a huge bite from those in the trenches. We asked occupiers to tell us what they experienced, and the going clearly is tough.

One corporate source explains the difficulty of getting into the Savannah export market, where “industrial is going like hotcakes. I’m not even sure there’s anything left, and there’s no room to build.” Trying to rezone for industrial use is also “one of the more challenging things about the municipalities.”

**“It’s not just Amazon. It’s all of the e-tailers. They’ve driven prices up and driven availability down.”**

— Scott Cameron, Sonoco Products Co.



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Besides, there are no materials with which to build, even if they could land the land: “In first-hand conversations with contractors, they’ve told me Amazon has gone in and bought up all of their materials. It’s as simple for them as, ‘Here’s a check.’”

“We just moved into a facility last November,” says another corporate real estate executive. “Amazon had taken all the steel and concrete in the area.” He explains that he had to wait six months after the fact “for my ramp to be built.

“When you saw that green and blue, you knew what was coming,” he continues. “They were gobbling up everything and can afford to sit on land for years,” which drives up rates. And since his target spaces range from five to 100,000 square feet, he often finds himself muscled out by the e-tailer’s smaller hub-and-spoke needs.

One tenant says that it is not Amazon alone creating all the ruckus. Whatever the source, however, the result is the same: “When you go to renew and you don’t have an option, you better start early.” He relates that long-term leases already in place have given his firm some protection. But he also expects that protection to go away as terms come to their conclusion.

“We know we’re going to see drastic requests from the landlord to increase rates,” he says. In one case the firm is already paying a 60 percent premium over the previous rate.

Yes, says one property manager, transportation is a bigger issue. But that does not diminish the Amazon effect, no matter the specific e-tailer, which can “scoop up whatever’s available and knock out anyone who was first or second in line.”

Consumers have changed the demand model, says another property management contributor, “and *our* customers are trying to get closer to *their* customers,” which requires the best access to major roadways and locations as close in as they can get. “We’re all looking for the same thing, but the pre-zoned industrial assets are gone.” The struggle on the development side then is more land, but in a same-day delivery environment, “how far is too far?”

And yet tenants want to stay as far away from mega e-tailers as possible because of the difficulties in sourcing talent. Potential takers for one manager’s facility expressed that very concern, knowing, “it would be a drain on the talent pool.”

But if the hit corporate occupiers have sustained at the hands of digital competitors is not their biggest concern, how big can these other issues be?

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## TRANSPORTATION AND OTHER SOURCES OF AGITA

“For the first time in 10 years,” says one corporate tenant, “we’ve increased our fuel surcharge about 33 percent,” which, of course, gets “passed on to our customers. I’m sure people aren’t happy.”

AAA documents the fuel issue more broadly, reporting that the current average for a gallon of regular gas now costs \$4.986. This is up compared to last year at this time, when it hovered around \$3.073. More critical to the industrial sector, diesel fuel prices jumped to \$5.753 from \$3.205 in the time, according to Triple A.

Meanwhile, “Transportation is key to how we site,” says one occupier. Already pushed out of prime industrial areas by space-hungry competitors, “adding five and 10 miles is dramatic, especially when you’re dealing with commodities and your margins are historically thin.”

One expert puts transportation costs at roughly 50 percent of occupiers’ total supply chain expenses. “Rents are about six percent,” he says. So, the theory is that, if they could find more rental space in order to lower shipping time (and we have seen how challenging that can be), they could actually save money.

Another problem with transportation—as well as in warehouse and distribution productivity—is the labor situation. The U.S. Chamber of Commerce cites it as one of two major problems in the supply chain. “First, U.S. consumer spending is roughly 20 percent higher than it has ever been,” it reports. “Second, there are thousands of open jobs across the country, especially in the transportation and logistics sectors.” It estimates the number of open trucking jobs at 80,000, “and thousands more in warehousing, railroads and ports.”

One corporate occupier thinks it strange that transportation hiring is in such a fix, given the “great money and signing bonuses” that potential employers are throwing at the situation. Nevertheless, “Every day, the average age of

**“If a potential lease will prevent me from servicing a product, it’s a non-starter.”**

— Robert Kontur, EnerSys



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the typical truck driver continues to increase because younger folks aren't coming in to pick up the slack.”

Another corporate occupier notes that one of his plants “can't keep drivers. They have to pay them more or they'll just go down the street and drive for someone else.”

To avoid that very scenario, one major trucking company is reportedly offering its biggest raise program in six decades—33 percent—to lure new talent. Typically paid by the mile, company-trained drivers are now guaranteed an annual income up to \$70,000 per year, up from \$48,000. And that is a starting salary. Drivers otherwise new to the firm can command first-year salaries as high as \$150,000.

Back at home base, in the warehouses, the competitive nature of the market gives potential candidates different options from which to choose. “It's tough,” says an occupier, “because of Amazon, where they can make an extra \$5 or \$7 an hour.”

There has been one relief valve for the supply chain issues, a lesson corporate tenants learned early in the pandemic. Traditional inventory methods focused largely on so-called just-in-time warehousing, receiving raw materials only as needed. It was cost-efficient, it was waste-reducing and it left suppliers caught totally by surprise when consumer demand spiked in early 2020.

As noted above, inventory control became a major driver of space needs once providers saw the drain on retail store shelves. So, more space for backup inventory became the call to action.

“Just-in-time failed,” says one source frankly. “The supply chain broke when COVID-19 hit.” Especially as the threat of this pandemic wanes, he says, some are saying it won't happen again. But even without COVID, there are enough destabilizing influences, “such as China,” say this expert, to make that a dangerous bet. “The best way to keep stores stocked and get product to consumers is to make sure that product is here.”

But this approach comes with its own drawbacks, including an obvious increase in carrying costs and the risk of inventory obsolescence. For that reason, says Projectline Solutions, “A hybrid inventory strategy that uses a balance of both just-in-time and just-in-case is the way to achieve” greater inventory resilience. “Think of it like a sliding scale. For mission-critical items, you'd slide toward just-in-case, ensuring you have a large safety stock. For lower priority items . . . the bar would slide toward just-in-time.” It is, they say, the best of both worlds.

It is important to note that not all of the corporate occupiers we spoke with have had to face the transition from just-in-time to just-in-case. Owing to the nature of the raw goods they provide, they have had trouble from their customers. It is those commercial customers who were having trouble keeping your grocery stores stocked.

We should mention here that China brings up another wrinkle in the supply chain that speaks to sourcing raw materials. “Moving manufacturing closer to the consumer is another way of protecting inventories,” says one expert. “But it’s not going to be the right solution for every type of company.”

That is why we, as a nation, will not see a total move to nearshoring or onshoring. “Companies that don’t mass produce with higher cost items are those that will bring manufacturing back to the U.S. or look at Mexico as a viable option.”

Mass production is just too complex to source at one spot. According to the Brookings Institution, a nonprofit public policy organization, in industries such as automotive, “we don’t so much engage in trade as we make things together with other countries.” It puts such co-production at half of North American trade and 37 percent of trade with the European Union. Cell phones, Brookings says, consist of components from 50 countries.

For that reason, the institution has proposed so-called “ally shoring” to release the U.S. from China’s grasp. Stronger trade with friendlier nations such as India, Vietnam and Mexico are all being floated in the plan, which has been embraced by the Biden administration. But it is not a big bell-ringer for practitioners, owing, in part, to the complexity involved in mass production.

Global sourcing dynamics might be on the cusp of shifting, however, with the passage in mid-June of the Ocean Shipping Reform Act, which promises to address open sea bottlenecks and consumer pricing of goods. But only time will tell.

Yet, as the industry continues to sort out its supply chain issues and where we will source our goods, one contributor says, “Everything is on the table.”

Issues brought about by leasing types, management relationships with corporate occupiers, market competition and inventory control are certainly unique to the industrial management sector. If there is an issue all managers share, it’s sustainability.



**“Since our inception in 2019, we’ve set pretty aggressive sustainability targets, including being operationally carbon neutral in operations by 2025.”**

— Sam Stockdale, Link Logistics

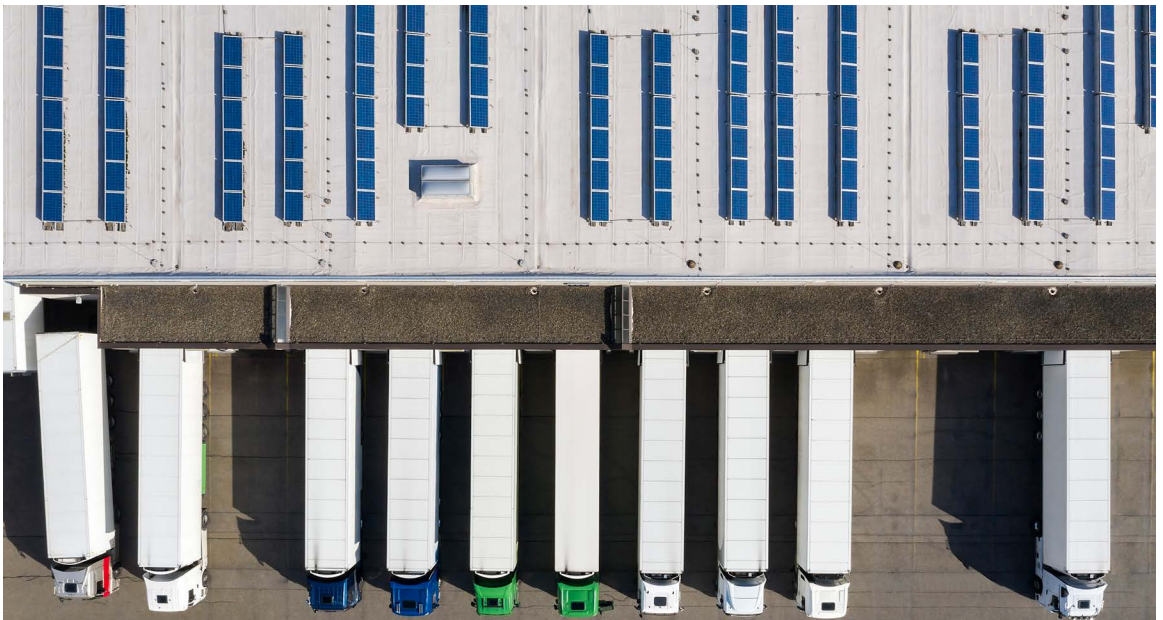
## THE SUSTAINABILITY “STICKY WICKET”

Industrial property managers have documented the hassles of creating a uniform policy of carbon reduction when various tenants are at the controls. The problem escalates in those locales where there are, or there are about to be, carbon-reduction deadlines imposed.

“Sustainability requirements can create a sticky wicket,” says one manager. In the quest to create a more sustainable facility, “We’re looking at two-ton [HVAC] units priced at over \$6,000 to replace.” How do you justify to a tenant that their “perfectly fine AC unit” might not meet proposed energy-efficiency mandates, she asks, adding that the landlord is probably even less enthused, given that they might need to “replace 30 to 50 units on a building.”

For these reasons, engaging with the local municipality is key. “Thankfully, BOMA is leading the charge on this,” says one property manager. “We’re working with various jurisdictions to encourage them to step back and be very intentional about what’s realistic for each property type and each individual company.”

“Jurisdictions are putting mandates out there without knowing if people can reach them,” adds another contributor. “It’s not going to happen overnight.” She sees an entanglement between buzzwords, the politics of doing what



**“Even with triple-net leases, industrial property managers are very creative in the ways they can help customers reach all of their sustainability goals.”**

— Luci Smith, Link Logistics

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is right and the science that leads to true sustainability. “The scary part is that we’re trying to fix generations of damage in three or 10 or 20 years. It’s not possible.”

We get back once again to the net lease structure. Companies with scale can certainly yield a bit more influence, as one contributor points out, to more easily bend the leasing structure to allow for partnerships with tenants in their effort to reduce carbon footprints. That same clout can be used in partnerships of another kind: with nonprofit groups, associations and other organizations. Such groups can assist in advocacy and “onsite strategies to enhance community health and help us understand how we can create improved air and water quality,” he says.

Happily, given the rising awareness of environmental, social and governance (ESG) protocols of institutional players—occupants, investors and developers included—there is an increasingly unified front, and more occupants “want to make sure they’re working with landlords that have a strong commitment to ESG,” says one manager.

Even in triple-net situations, a little creativity can go a long way, and as one contributor notes, industrial managers have creativity to spare. “We do things like one-on-one training for ENERGY STAR® Portfolio Manager and benchmarking their utility consumption,” she says. “After all, they’re typically the ones paying for utilities.”

Programs such as ENERGY STAR or the myriad other protocols currently available (such as those offered by BOMA International, the U.S. Green Building Council, the Sustainability Accounting Standards Board or the Global Real Estate Sustainability Benchmark), provide a solid checklist of best practices for managers and owners to follow, as one source explains. Yes, he adds, they can be “cumbersome and time-consuming” to comply with when it comes to industrial properties.

But they also can be more understandable than other mandates, such as those put forth by the ratings agencies, which at least one expert feels do not have a consistent scoring criterion. This is not to say they are without merit, but, “There aren’t a lot of apples-to-apples comparisons” when it comes to industrial. One contributor says that since these ratings are based on publicly available data, “private companies that don’t have a lot of disclosures aren’t included. So, it’s an uneven benchmark.”

The complexities of integrating green protocols aside, there are some guidelines that could be helpful, even if they are low-hanging fruit. Many, in fact, pertain to office assets as much as industrial. Prologis, for instance, offers some goals that do not tax the capital expenditures (or the manager/tenant relationship) nearly as much as replacement HVAC would, and yet they can lead to “dramatic results.”

These include such steps as going to LED warehouse lighting, motion sensors and submetering on machinery. Recycling, of course, is a universal fix. Specific to the sector are such considerations as the reuse of pallets, buying

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or renting electric forklifts (keeping in mind FASB's "embedded lease" rules) and more efficient packing processes. All contribute to the bottom line of sustainability.

Certainly, many of these steps can be incorporated or added during buildout or retrofit. Otherwise, as we have discussed, the occupying tenant or tenants will more than likely have to sign off.

Which brings us back to two points that our experts have touched on periodically throughout this Deep Dive: The first is the importance of partnerships. The second is the fact that, despite the differences that exist between the details of industrial and office markets, there are some distinct points of commonality. Prime among those is service.

One expert we spoke with put it best: "Our goal is to figure out how we can best serve our tenant base by helping them improve their operations and efficiencies."



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