

# MARKETING

INSIDER BRIEFS

## Construction Costs Expected to Increase as Much as 6% This Year ALM GLOBEST

U.S. construction costs saw an average increase of 4% in 2023. Those costs are set to increase by 3-6% in 2024. But the U.S. is not alone in these rising construction costs. The cost increases across major international operating regions, from the United Kingdom and Europe to Mexico and Peru. While the extent of these increases varies with each market, there are some common factors affecting these increases. Geopolitical turmoil is a major driver in increasing construction costs in the U.S. The Federal Reserve decision on interest rates will have an impact on financing for construction projects. In addition, the upcoming presidential election could impact costs and trends in the industry, too. In addition, inflation is a factor, as well. According to Federal Reserve Economic Data, construction supplies increased by less than one percent in 2023. While modest, a 2-3% increase in construction material costs is anticipated for 2024. Finally, skills and materials shortages are behind cost increases nationwide, as well. While U.S. construction activity remains strong, record-low numbers of skilled journeymen and apprentices is bolstering bargaining power for skilled labor. Consequently, a 3-6% increase in labor costs is expected in 2024.

the key material in a lithium-ion battery's anode and typically accounts for more of the battery's mass than other materials such as lithium, cobalt and manganese. It can come from either natural or synthetic sources. SK On has two EV battery plants in Commerce, Ga. that supply Volkswagen and Ford. The company's joint venture with Ford Motor Co., BlueOval SK, has plans to open three battery plants: two in Kentucky and one in Tennessee. SK On also has plans to open another Georgia battery plant as part of a joint venture with Hyundai. According to the Alliance for Automotive Innovation, China controls about 90 percent of global anode production capacity and converts about 90 percent of the world's graphite into anode material. According to the U.S. Geological Survey, China produced about 65 percent of the world's graphite in 2022.

## The Changing Direction Industrial CRE ALM GLOBEST

CRE for advanced manufacturing is the wave of the future, while warehousing and distribution take a back seat, the report finds. It predicts new construction related to the high tech, automotive, energy and biomanufacturing sectors will add 6% to 13% to the nation's existing manufacturing space within the decade. And the U.S. will not be the only beneficiary. Canada and Mexico, as well as U.S. cities along the border with Mexico, will also see significant growth in these sectors. "Since 2020, over 300 major manufacturing facility announcements have been made across North America, representing approximately \$400 billion in pledged project investment, at least 210,000 new proposed jobs, and a minimum of 250 million square feet of new development over the next decade," the report stated, calling this "a watershed moment". Real private manufacturing construction spending grew at an annualized rate of 62% in August 2023. The computer/electronic/electrical subsector saw the largest investment of any sector on a per project basis, soaring to 56% by August 2023 - compared to just 10%

in 2019. The growth is taking place in many states, but the South and Midwest especially are benefiting. "New manufacturing clusters are forming and existing clusters are expanding as a record number of new projects are either underway or set to break ground in the next decade," the report found. "At the end of 3Q 2023, manufacturing construction reached 62.2 million square feet, a record high in data going back to 2003, representing 11.5 percent of the total national industrial pipeline (540 million square feet)," the report noted. "This comes as development for many other commercial real estate sectors (including logistics) wanes due to the slowing economy and difficulty in sourcing construction loans, especially for speculative construction." Another major challenge for manufacturers in advanced sectors - in addition to their growing power needs and limited capacity - will be attracting or training the needed educated or skilled workforce. "Sourcing talent globally will also be critical in relation to attracting labor with specialty skill sets (as in certain semiconductor production processes). Immigrants account for about 40 percent of highly skilled workers in America's semiconductor industry," the report noted.

## Construction industry adds 11,000 new jobs in January, but contractors still can't find enough workers REAL ESTATE JOURNAL

The construction industry added 11,000 jobs in January, despite challenges posed by severe weather conditions that caused delays in multiple regions, according to an analysis of new government data by the Associated General Contractors of America. "Although job gains were modest last month, other evidence suggests there is still lots of demand for workers," said Ken Simonson, the association's chief economist. "Wages rose faster than in other sectors, job openings at the end of 2023 were at near-record levels for December and construction spending jumped that month."

Employment at nonresidential construction firms, including nonresidential building and specialty trade contractors along with heavy and civil engineering construction firms, rose by 7,600 positions for the month and 155,100 - 3.3% - since January of 2023. "Considering most construction positions don't require a college degree, construction careers offer an almost certain path to economic security," said Stephen Sandherr, the association's chief executive officer. "Yet too few workers are ever exposed to the many career opportunities available to them in construction as policy makers continue to urge everyone to go to college instead."

## As Ozempic Slims Waistlines, It's Also Bulking Up Biomanufacturing Space BISNOW NATIONAL

The eye-watering profit projections of a new class of weight-loss drugs has become a focus of biotech and Big Pharma, with companies jockeying to bring new drugs to market and expand production capacity for those that already have approval. "The sky's the limit, truly - it's not hyperbole," said Jake Adams, a project manager for CRB, a design, engineering, construction and consulting firm for biotech and life sciences. "This is the holy grail, the largest, most profound blockbuster drug of our generation. Published forecasts on this are all the way to the moon. They'll probably never catch up to demand." New weight-loss drugs are driving Big Pharma to think about expanding biomanufacturing capacity. "I don't know that any large pharma group can sit on the sidelines," Adams said. "I don't know that shareholders will tolerate that. There will continue to be a demand for drugs and manufacturing at a large scale." The challenge for building biomanufacturing capacity to meet this demand is the relatively slow speed at which these very expensive projects can be built. CRB senior fellow Dave DiProspero said that in a year or two, as demand explodes, "the trigger will have to be pulled" on new manufacturing projects. Existing biomanufacturing plants that aren't being used are likely candidates for retrofits.

1. **Constant Forward Motion**
2. **Keep Showing Up**
3. **Team > Teammate > Self**

## Who's Right About Commercial Real Estate in 2024? COLLIERS

Experts are coming down on opposite sides of how much trouble property is facing. There's a lot of concern about commercial real estate in the industry, in the press, among experts. Is it as bad as all that? Depends on whom you ask and what type of property you mention. Colliers U.S. CEO Gil Borok recently said he's on the cautiously rosier side. When asked if many were overstating worries about debt maturities and repayments, he said he thought so. "There's no question that there's going to be distress coming," Borok said. "The signs are all there. But I also think that we will see banks and other lenders continue to work with

borrowers to work through the situation and we've seen that historically. The sort of doom and gloom out there, it's not to make light of it, but it is to say that there are pathways that will be less drastic than what we are hearing in the media today." "And we've seen a good bit of that in 2023 and we've also started to see repricing of certain assets," Borok said. "Buyer and seller equilibrium is being reached, which also helps in terms of starting to move volume, sort of a more realistic take on pricing certainly helps the market." Borok was also relatively upbeat about office. "You have to remember that certain sectors like office, which have a secular issue since the pandemic, will be more impacted than other sectors like industrial and multifamily, where the fundamentals are much better," he said. But how comfortable should those in the CRE industry get? Barry Sternlicht, CEO of Starwood Capital Group, said, "The office market has an existential crisis right now. Sternlicht estimated that the one-time \$3 trillion asset class is probably worth only \$1.8 trillion now. "There's \$1.2 trillion of losses spread somewhere, and nobody knows exactly where it all is."

## Healthcare Can Be a Good Candidate for Repurposed Space ALM GLOBEST

When the topic of adaptive reuse of existing CRE properties comes up, the most typical angle is turning older office buildings into apartments. While 2023 was a particularly active year, with 55,000 office to apartment unit conversions, according to Yardi's Rent Café, that's a small proportion of the 440,000 total units constructed by Real Page's count. Instead, developers, owners, and investors might look to other reuse, like healthcare. As that industry moves away from to outpatient care at distributed locations, it increasingly needs space. There are clinics and practices in spaces within shopping malls, freestanding retail locations, former general office buildings, and other repurposed spaces. Becker's Hospital Review recently looked at how Hartford HealthCare had used such properties as "a shuttered Blockbuster store, a vacant Bed Bath & Beyond and an old funeral home." More organizations are zeroing in on outpatient, ambulatory care offerings as they look to retain hospital space for acute care. From freestanding emergency departments to grocery store walk-up clinics, health systems are testing new methods to expand their footprints (and appease an increasingly impatient patient before they make the switch to Amazon)." As the Center for Health Design has noted, reuse of buildings can be more economical than trying ground-up construction, especially with the cost of land, materials, and labor in many metropolitan areas.



Smart thinking for  
**INNOVATIVE** solutions