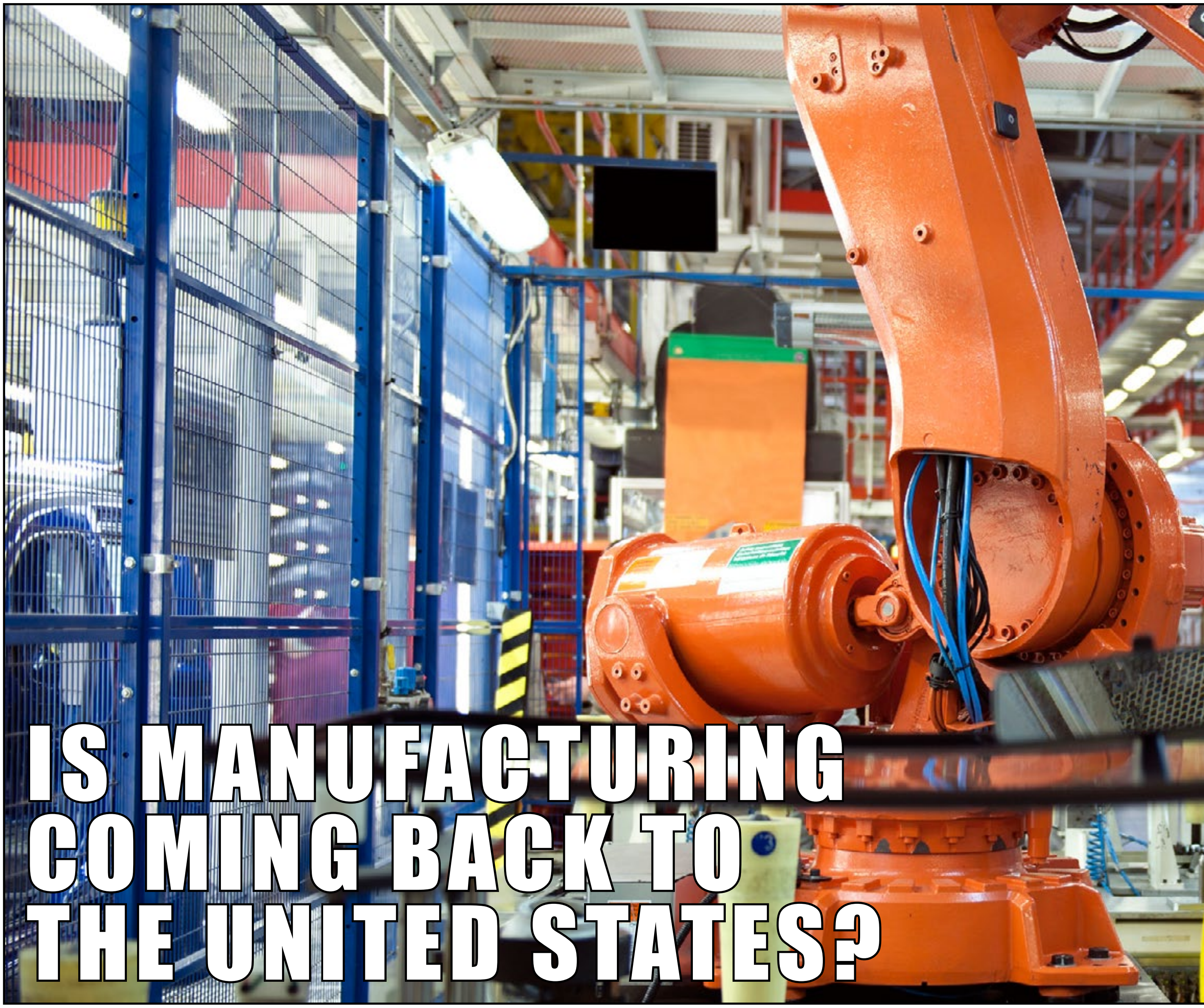


IS MANUFACTURING COMING BACK TO THE UNITED STATES?

There is no argument among SIORs that manufacturing has come back from its recession lows in the U.S. and that this could benefit the commercial real estate market. When asked if it is fully on the rebound, many offered a tentative "yes."

"Yes, but with a major qualification," is the response of J**ohn Robbins, SIOR, FRICS**, of Carpenter/Robbins Commercial Real Estate, Inc., in San Ramon, Calif. "It's not the same jobs that were lost to low-cost foreign manufacturers."

"I think it is, but I wish it had come back at a stronger pace," adds **John Barker, Jr., SIOR**, president and chief development officer of Red Rock Developments in Charlotte, N.C. "I do not say this with pleasure; so much of our manufacturing has left in the last 10 years."

"Yes, it is coming back, but it is different," says **Gabriel Silverstein, SIOR**, president of Angelic Real Estate, LLC, in New York, N.Y. "One of the most important drivers is the growth of the list of right-to-work states — most notably and surprisingly, Michigan."

Another major driver, Silverstein continues, involves the increase in the overall cost of production-to-delivery for manufactured products outside the U.S. — most notably in China. "Total costs have not equalized, but the cost gap has significantly shrunk," he observes. "The impact of the combination of these two forces should continue to grow America's manufacturing base for years to come."

“It is coming back, but there are limits and impacts — not the least of which is training,” notes **David L. Liebman, SIOR, JD, LEED**, Green Associate, managing broker, Merit Partners, LLC, in Chicago, Ill. “A lot of people may not have the high-level skills employers look for. We lost a lot of skilled operators in the recession and now that the need is here there are not as many as there were before. It is also indicative of the amount of training these companies are demanding as they re-shore or on-shore their manufacturing.”

“Manufacturing has been coming back since the end of the recession,” so says **Steve R. Marcusse, SIOR, CCIM**, Principal | West Michigan, Brokerage – Industrial for Colliers International in Grand Rapids, Mich. “And it will continue to come back because of five main reasons:

• Cheaper energy inputs here in the USA, particularly natural gas;

• Narrowing of the wage gap between U.S. workers and those overseas;

• Intellectual Property security, particularly in China;

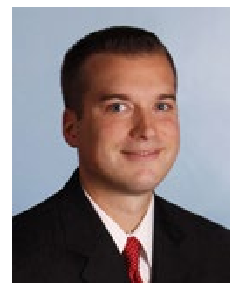
• Transportation costs, lead times, and disruptions; and

• Quality issues with more complex goods.

contributing SIORs

JOHN BARKER JR.,
SIOR

DAVID L. LIEBMAN,
SIOR, JD, LEED



STEVE R. MARCUSSE,
SIOR, CCIM

JOHN ROBBINS,
SIOR, FRICS

GABRIEL SILVERSTEIN,
SIOR

I've seen companies bring work back from China because they can do it cheaper and better here in Michigan, and I've seen local companies expand production here, rather than expand or outsource in a foreign country."

MARKET DIFFERENCES ARE CLEAR

SIORs are well aware of the differences in manufacturing in their areas – and ultimately how that is impacting their business. "It is different in that it's more efficient with lower wages, more automation, less demand for huge buildings or the need to house hundreds of workers," notes Marcusse.

"Automation of manufacturing requires different buildings – more reliable power, more clear height, better column spacing . . . it just goes on and on," says Robbins.

"We've seen a conversion or transition from labor-intensive practices to knowing how to do things with less people and more technology," adds Barker. "Our foundation of aerospace is absolutely coming back, as is anything automotive."

Liebman says that the impact varies "both geographically and statewide. Poor Illinois is the rotten stepchild of the rest of the country, with the lowest economic incentives and business support. A lot of companies do want to come here but Wisconsin, Indiana, Michigan, and Iowa to some extent are beating Illinois when it comes to attracting business – especially in manufacturing."

There are definitely manufacturing opportunities, in fracking and the natural gas market, but in addition to the aforementioned challenges. Liebman suggests that "there is a skills gap, plus the upcoming number of retirements. Baby Boomers are starting to retire, and they are not necessarily being replaced with skilled people."

BUSINESS, STRATEGY IMPACTED

SIORs say that the manufacturing rebound has clearly impacted their business – but because of how it has changed, they add, it has also required them to adapt their strategies.

"I'm the guy on the street, so with smaller manufacturing companies enjoying a resurgence, there is a huge amount of industrial building – both spec and build to suit," says Liebman. "This usually involves 1.8 million square feet to 2.2 million square feet in warehouse and distribution. But I am finding manufacturing opportunities, some of which are coming from the outside altogether."

As for his business strategy, Liebman says the new reality "requires me to be more knowledgeable about manufacturing. You can really get a leg up on the competition if you know these trends and what will happen."

"Just like the new manufacturing employee, we have to become more knowledgeable about our client's business and their industry," says Robbins. "Finding a facility is no longer a deal; it's a process, and once our clients go through that process with us, it's going to be hard for others to compete unless they bring similar process management skills."

"In my market there is high demand for smaller to mid-size newer, quality manufacturing space," says Marcusse. "Our overall vacancy is 5.6 percent, but our Class A manufacturing space inventory is less than 1 percent vacant."

> "FINDING A FACILITY IS NO LONGER A DEAL; IT'S A PROCESS, AND ONCE OUR CLIENTS GO THROUGH THAT PROCESS WITH US, IT'S GOING TO BE HARD FOR OTHERS TO COMPETE UNLESS THEY BRING SIMILAR PROCESS MANAGEMENT SKILLS."

How is the comeback impacting his strategy? "A good SIOR needs to really get to know the client's business and why they have a need rather than starting with a solution," says Marcusse. "We need to help them forecast for the next five to 10 years."

The comeback, says Silverstein, "has given me personal exposure, working on half a dozen manufacturing projects in the past year and a half after more than a decade of not working on them." This new reality, he adds, "makes pursuit of manufacturing projects more appealing and worthwhile."

Since some of that manufacturing requires special use space and high cost per square foot investments, Silverstein notes that when compared to other industrial products, "we have focused on additional capitalization structures that are better conceived for that product than financial models that work for more homogenous distribution space."

"Our strategy has been to heavily attack the manufacturer who has specialization in his building," says Barker. "Many developers do not want to specialize because it makes a building tough or tougher to re-lease in 15 years. We have really tried to engage, not so much around skill set, but to really seek more response to their needs."

As for SIORs, he adds, "it has done a fantastic job and we are really building a strong foundation with that organization. We try to embrace them and they do the same with us as we try to build our brand, but more important than that is to just build relationships. If a guy does not like you or trust you he will not do business with you."

POSITIVE OUTLOOK SEEN

Most SIORs see a bright future for the manufacturing sector. "I foresee continued growth, and probably accelerating growth, if the rest of the world – particularly Europe – gets on better economic footing and increases business and consumer spending," says Silverstein. "That will only further expand the opportunities in the U.S. as a manufacturer."

"I see more of the same for the foreseeable future," adds Marcusse. "I see both large and small companies taking advantage of cheaper inputs, producing better quality products more efficiently and more profitably in smaller spaces."

"The future is bright for us; we are still the largest consumer of goods in the world, and one of the largest importers," says Barker. "But we will never see the manufacturing jobs we once had in this country."

Robbins agrees. "Technology is dramatically impacting our world, from computer directed tools, to robots, to 3D printing," he says.

"Right now capital and technology are assaulting the manufacturing process from every angle," he continues. "The old rules are gone. And the old timelines are gone. My mentors in the commercial real estate field had decades to adjust to new ideas; we do not have that luxury. Of course we've been helped by rising wages and work force aspirations in countries once considered low-cost manufacturers. Will it all come back? No, but many industries will."

ABOUT THE AUTHOR:
STEVE LEWIS is President of Wordman, Inc., a marketing communications firm based in Loudon, TN. He has been representing real estate clients and covering the commercial real estate industry for more than 30 years, and he continues to write freelance articles about the real estate industry.