

## Supply Chain Disruption

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*Supply Chain Disruption* was listed as the #4 issue in the [2022-23 Top Ten Issues Affecting Real Estate<sup>®</sup>](#) by The Counselors of Real Estate<sup>®</sup>.

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It may not come as a surprise that Supply Chain Issues made The Counselors of Real Estate’s Top

Ten list again. It's a frustration we are all dealing with personally, from the grocery store to the home improvement centers to our automobiles. In the real estate sector, everything from routine repairs and maintenance to property improvements to new construction are greatly impacted. Delays in deliverables, rising costs, shortage of labor, and lack of materials are influencing nearly all companies and their related real estate.

Basic economics, as we've learned, is the creation of equilibrium between supply and demand to create economic harmony. Since humans first started trading, those with goods and services in demand adjusted their business to produce more to support growing demand. Thus, creating the earliest forms of trade and business.

Today, many factors impact the supply and demand tug-of-war, and the best supply chain systems run on flexibility. Most would assume this is all a COVID-19 side effect, which is only partially true. Many experts believe this started well before COVID-19 and may last longer than our vaccine and boosters. We all witnessed the back-up of cargo ships in the port of Los Angeles and the bottleneck caused by the cargo ship "Ever Given" in the Suez Canal. What has become profoundly clear is this is not a U.S. problem, but a global one. As the world's economies have grown and prospered through greater efficiencies, we've become more reliant on others' ability to maintain supply chain harmony.

In the past, warehouses held large inventories just in case. This antiquated system created excess and waste. As the world became more efficient and practiced just-in-time production, warehouses held less product to increase efficiencies. Once the need for those products stopped and production ceased due to a global pandemic, reserves were not prepared for the rush of demand as e-commerce erupted across the globe. We also realized how dependent we were on the efficiency of production from China. As China shut down, the world effectively shut down.

Other contributing factors include the weather and climate disasters. Materials shortages such as wood, steel, computer chips, and electrical supplies all influence commercial real estate decisions today. Labor shortages are stressing nearly all areas of U.S. business, and commercial real estate is not exempt. According to recent research, 88% of contractors report moderate to high levels of difficulty finding workers and 35% have turned down work due to labor shortages.

As commercial real estate practitioners, we've been tasked with the challenge to adjust how location decisions are made. Critical site selection has driven decisions across the U.S. in unprecedented ways. Delayed supply chain concerns are an unknown factor for developers, who are adding several months to their schedules. They're trusting vendors to get the labor and materials and meet construction deadlines, risking added costs and unmet contractual obligations.

If there is an upside, nearly everyone is affected by these challenges, and we are adjusting our expectations. Vacant retail stores are being repurposed as last-mile warehouses. Older buildings

are seeing new life and leasing opportunities. However, the challenges continue as modern logistics experts are racing to keep up with demand, shifting how products enter ports and how transportation systems are utilized to get the products to end users.