



L&B Realty Advisors - Research Insights

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The Evolution of Essential Needs Commercial Real Estate: From the Grocery Store to The Advanced Manufacturing Facility

L&B Realty Advisors is a strong advocate of a deep, research based, “thematic approach” to real estate investing. Essentially, the process involves identifying structural changes in long-term demand emanating from shifting global mega trends. These structural changes can produce Net New Demand for real estate buildings that encompasses lower risk and more sustainable income streams. Today’s investment environment is inherently uncertain. The L&B approach to prudent capital deployment during this period is to de-risk the opportunities wherever possible. The “thematic approach” provides an enhanced methodology designed to offset the pitfalls of timing the market. Instead, the process prioritizes staying invested and identifying new opportunities behind the tailwinds of inevitable and cycle-resistant demand.

This concept of “thematic investing” is creating new categories of “essential needs” *commercial real estate (CRE)*. Historically, “essential needs” CRE was synonymous with brick-and-mortar retail and housing. Folks have to eat, and they need a place to live. These basic necessities are required through all segments of any economic cycle, and they are buffered from “disruptors” like technological change or escalation of geopolitical risk. Today, the components that constitute “essential needs” have vastly expanded and now include critical healthcare, digital infrastructure and advanced domestic manufacturing. Consumers of today are believed to have a much broader and stringently non-negotiable set of expectations. This widening of the definition of essential is producing new categories of real estate that benefit from lower risk and more sustainable revenue flows. L&B believes that one such sub-sector is industrial warehousing that directly supports the domestic manufacturing of required products.

The COVID-19 pandemic was a watershed moment for “essential needs” CRE as it shined a light on the fragility of global supply chains. In order to secure their supply chains, businesses are increasingly onshoring their manufacturing and logistics operations, creating a new “essential needs” category for CRE in the US; the modern manufacturing ecosystem. Production of critical goods such as semiconductors and pharmaceuticals are a particular focus of the onshoring trend as these goods are necessary to keep society functioning. Manufacturing these goods domestically reduces the risk of supply chain disruption by shortening the distance between the point of production and the consumer. As



such, modern manufacturing facilities have joined logistics and distribution centers as a new class of “essential needs” commercial real estate.

The need for the “onshoring” of domestic manufacturing facilities originated long before the onset of the current tariffs debate. The root causes were driven by the end of globalization and the re-emergence of economic mercantilism. COVID and the inherent disruption of global supply chains proved to be the “final straw” for the old-world global trading environment. L&B Realty Advisors was early, identifying the changes in the demand characteristics of industrial real estate. The pre-COVID era was defined by “Just-in-Time” space requirements catering to the explosive growth of e-commerce and relying on global supply chains to meet the customer demand for fast on-line delivery. Immediately post-Covid, companies were forced into a “Just-in-Case” supply chain logistics model, during which certainty of delivery trumped speed and even cost. Today, we are evolving into the new “Just-in-America” paradigm where neo-mercantilism is the current economic model of necessity. Thematic investing embraces these shifting megatrends. It recognizes that new points of goods production are emerging. More importantly, within the commercial real estate space, it identifies the shifting trade patterns, the emerging new locations and the changing building requirements that are associated with the new points of production.

The message for investors and developers, is to understand and embrace new drivers behind the evolving “essential needs” real estate. Today’s version must be understood within the realities of new trading patterns. The current zeitgeist is one characterized by the end of global free trade and the return to a new version of mercantilism. This means that goods that are needed by American consumers are best produced domestically. This is the most efficient way to provide assurance of supply chain reliability in an environment of ever-increasing geopolitical uncertainty.

The most successful CRE strategies will be those that anticipate not just the next trend, but the next need – whether it’s a grocery store, a cloud server, or a modern manufacturing facility. The identification of shifting patterns of trade caused by the onshoring mega trend provides an excellent example of how “thematic investing” can help supplement the investment process to prioritize the investment opportunities that benefit from these structural demand changes.

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