



The ElmTree Edge

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Labor Pains

Updated labor market insights during a time of turbulence and economic volatility



MaCauley Studdard
Managing Director

In September 2022, ElmTree released a detailed labor scarcity report which presented a thorough analysis of how labor scarcity is reshaping the industrial landscape. As the report synopsis stated, “labor is increasingly becoming a driving force for tenants’ location decisions.” While acknowledging that there are a wide range of factors that drive supply chain decision-making, including “access to transportation infrastructure, government incentives, demographic trends, and occupancy costs,” the potent mix of increased demand for industrial properties, the ongoing development of new industrial facilities, and an already significant shortage of industrial workers has combined to make labor availability an increasingly important consideration for industrial tenants’ location-based decisions.

Nearly a year later, those fundamentals remain in place. There are signs, however, that industrial demand might be starting to level off and labor pressures will subsequently ease as a result. The Bureau of Labor Statistics (BLS) reports that monthly employment in the U.S. has trended slightly down, although that trend represents more of a leveling off than a true reduction, and numbers remain dramatically higher than pre-pandemic levels. The shift in trajectory was outlined in a recent Wall Street Journal piece entitled *A Red-Hot Market for Warehouse Workers Has Cooled Off*, which boldly declared that “A warehouse hiring spree that made logistics one of the fastest-growing job sectors during the pandemic, as businesses added nearly 700,000 workers in just over two years and increased average hourly pay by about 8%, is over.”

While it’s not clear if the data supports such a definitive statement, it is accurate that the extraordinary hiring momentum of the last few years has slowed. As the article states, U.S. warehousing

employment has essentially held steady since reaching a high point of 1.96 million jobs in June 2022 (decreasing by approximately 41,000 jobs, a seasonally adjusted figure reported by the BLS). While much of the piece is light on details and veers into more anecdotal reporting, it does lend credence to a broader feeling within the industry that some of the labor pressure may be easing.

Nonetheless, wage growth for warehouse workers remains an issue, with hourly rates up 30-40% in comparison to pre-pandemic levels, and it's expected that the current demographic trends will continue to complicate the labor outlook in the coming years. Additionally, as the underlying industrial sector metrics remain strong, a more significant reversal of these labor demand trends seems unlikely. Which is why, even as the last year has demonstrated just how volatile and unpredictable broader macroeconomic elements can be, labor availability is expected to continue to be an important consideration for tenants' location-based decisions. With new deliveries expected to remain high in the years ahead, labor scarcity in the industrial sector may ebb and flow but will likely continue to play an important role in shaping both development decisions and investment opportunities in the years ahead.

While the key takeaway from the September 2022 report remains true and ElmTree continues to believe that these labor trends "offer a compelling investment opportunity for investors with a mid-to-long-term investment horizon," staying closely attuned to evolving trends and demand drivers in a volatile economic environment remains a key to not only identifying optimal markets and sub-markets for future industrial facilities, but for capitalizing on those insights with strategic investments that generate above-average capital appreciation over a mid-to-long-term hold period.

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