# The Weekly Take

## Right Place Right Time: The art of locating industrial sites near both labor and the supply chain

09.26.23

**Spencer Levy**
Driven by the effects of pandemic-related supply chain issues, along with everything from macroeconomic forces to basic consumer choices and more, the industrial sector is going strong and the U.S. is on a path to a manufacturing revival. On this episode, we traveled out to Boise, Idaho, site of the Industrial Asset Management Council's Fall Forum, to meet three real estate leaders attending the conference. We found out what's powering the asset class they focus on: Manufacturing.

**AJ Magner**
The moment in time we're in now, the velocity and volume of manufacturing projects is ten or more fold compared to the average over the last 20 years.

**Spencer Levy**
That's AJ Magner, a vice chair at CBRE, who runs a global advisory team that helps manufacturing and distribution organizations manage their real estate portfolios.

**Seth Martindale**
We've done everything from tanks to tofu. It's a nice stretch of stuff we get to work on.

**Spencer Levy**
That's Seth Martindale, senior managing director for CBRE’s Americas Consulting Platform. Seth specializes in site selection and location incentives. And to provide insights from an occupier’s perspective we welcome a leader for a major manufacturer: David Varalli, Director of Real Estate for TreeHouse Foods.

**David Varalli**
It is so specialized, right, that you have to have the power, you have to have the infrastructure and everything else, that it’s just a much more in-depth process, and struggle to figure out.

**Spencer Levy**
David oversees a nationwide network of factories, distribution centers, offices and more for this multibillion dollar private label food producer. TreeHouse makes products that hit the market under a variety of well-known brands, likely including some of what you put on the kitchen table or stock in your pantry each week. Coming up: Morning Coffee in Boise and a conversation about a specialty manufacturer, the nuances of this essential asset class, and all the ingredients of a big real estate story. I'm Spencer Levy, and that's right now on The Weekly Take.

**Spencer Levy**
Welcome to The Weekly Take. And this week, we are in beautiful Boise, Idaho, with David Viralli, Director of Real Estate, TreeHouse Foods. David, thanks for joining the show.

**David Varalli**
Thank you very much.

**Spencer Levy**
Then we have AJ Magner. AJ, thanks for joining us.

**AJ Magner**
Thanks, Spencer.

**Spencer Levy**
And then we have Seth Martindale, who did the correct thing this morning by bringing me iced coffee. Thank you, Seth.

**Seth Martindale**
Trying to score points early, here.

**Spencer Levy**
We'll be nice to Seth today. So to start off the show today, why don't we just tell everybody who you are and what you do? David, why did you tell us that?

**David Varalli**
TreeHouse Foods is one of the largest private brand food manufacturers. So roughly about 3.5 billion in sales. We operate in 17 categories like crackers, cookies, pretzels, coffee, all those things. And then we make them for the large companies, so you don't see our name on anything, but we work with all of the large retailers.

**Spencer Levy**
Great. So, most important question, do you have any particular food item that's your favorite?

**David Varalli**
So I do. The Trader Joe's peanut butter cups.

**Spencer Levy**
Okay.

**David Varalli**
…is one of ours. And so, yeah, that would be it.

**Spencer Levy**
So, we don't have much more to ask here today. Show's over. So, David, I know all of us are running out to Trader Joe's now to buy some peanut butter cups. I certainly am on my way back to my hotel. But, David, let's pull the lens out just a little bit. Where are some of your facilities located and what are some of your major considerations to pick them?

**David Varalli**
Well, so, TreeHouse as a company is basically grown through acquisition. We haven't had a lot of organic growth and we basically buy companies, inherited locations where they

were. And so that's a little bit different of a scenario just in terms of how we've established ourselves. So in total, we have 93 sites across North America. We have 26 manufacturing facilities. We have some warehouses that are associated with those. And so those would be owned locations, but primarily like the large mixing centers, distribution centers, offices, all those are going to be leased. Everything else, plants and the plant warehouses are going to be owned locations.

**Spencer Levy**
So one of the major differences between manufacturing and just a big box warehouse center is the equipment that's in there, which is really unique, really expensive. Tell us a little bit about that.

**David Varalli**
Yeah, it is. Right. So I mean, I think any of our production facilities, there's extensive capital that has to go into those like the infrastructure within the building as well as the equipment itself. And so being sure that the company is able to spread that cost over time, right? It makes more sense to own it than have to capitalize it on a five-year lease, a ten-year lease, and the cost of redeploying that equipment and moving it, that hinders you to stay where you are, right? That it's going to be a big cost and incremental spend to move locations from one site to another.

**Spencer Levy**
And I've also seen, this is particularly true in the auto industry, so I'm just going to ask your opinion in the food manufacturing industry, that very often this equipment is so unique that it's cheaper to start from scratch and build a new plant with new equipment than it is to try to repurpose existing equipment. Is that true?

**David Varalli**
I would say to some instances, yeah, it is, right? And it's so specialized, like we have some equipment at some of our facilities that is so old that we actually don't think we could move it. And so it either stays where it is or we have to get a new. So yeah, it is somewhat exceptional that way. And the thought is, with that cost of capital as well as what the cost would be to try to move those plants elsewhere, those need to be owned, so we need to have the stability of owning those locations. The mixing centers, so most or some of the warehouse locations as well as offices, so those are going to be leased facilities simply so we have flexibility within our networks.

**Spencer Levy**
Let me turn to you for a moment, Seth, on that same question. In terms of going to a place to pick a site and obviously you've got the cost of land, you've got the availability of labor, but you have a lot of these older manufacturing areas that they're better days economically were yesterday. How much are they attractive versus new places that might have a deeper labor source?

**Seth Martindale**
I think like everything else, it's a matter of balance, right? The further outside of a major market you go, the more issues you've got with labor acquisition, the harder for you to get the infrastructure you need. It's obviously going to be cheaper and there's going to be more incentives there. But you've got a balance, can we really run our operation here for as cheap as it might be? I think most of the companies we're working with tend to lean towards less risk and pay more money. But that's just operating profile for today. You know, that may change. The hard part is, once a certain area of a city or a certain area of the

country gets like a boost, somebody big goes in there, everybody else follows them. So, hard to predict where that might be. But I think it's a good reason why sometimes states go big on economic incentives for one particular project, because you win that one big one and everyone else says, well, they went there, there must be something going on there that's right. Let's go there as well. So, all a balancing act.

**Spencer Levy**
So AJ, let's just pull the lens back up just a little bit more. The manufacturing in the United States, it peaked and then it fell hard and now it's coming back. I think that's a fair way to put it about how manufacturing has, a lot of it was offshored, but now we're talking because of post-pandemic it coming back. Tell us the big picture of where manufacturing is today and where you see it going.

**AJ Magner**
Yeah, from a real estate lens, I'd say let's look at it over the last 20 years. The moment in time we're in now, the velocity and volume of manufacturing projects is ten or more fold compared to the average over the last 20 years. There's a high demand for manufacturing projects. The uniqueness of the manufacturing plant itself as an asset class is much more like the traditional single family residential market, right? It's owner occupied, so there's not really a big thirst for international capital and institutional capital to own a broth manufacturing facility, right? There's a niche of investors that will play in that space, but it's really an owner occupied market from a real estate asset class standpoint for the reasons that we have discussed today, in terms of the stickiness of infrastructure, the stickiness of equipment, the specialization of labor markets, and just the comfort of owning and having 100% control of the fee of that site. That's how the asset class plays in the overall portfolio mix for most organizations.

**Spencer Levy**
AJ, just tell us how the manufacturing practice somehow differs from our general logistics practice.

**AJ Magner**
It couldn't be more different, right? Logistics, the variables you're dealing with are typically by nature, movement of product through the building into the customer right. To the building, through the building, to the customer. On the manufacturing side, you're often dealing with bulk inbound of raw materials, where value is getting added to that bulk inbound raw material, whether it be rock or grain or something else. And then you've got to figure out how to get it to the plant, to the distribution center in the most efficient way to customers. And then additionally, Seth will tell you the variables that are going into the site selection decision on the manufacturing are much different also because it's much more heavily weighted toward site infrastructure, incentives labor, labor, labor, labor and also a lot of environmental issues and environmental conditions. I did a site selection for a potato chip manufacturing group once we were looking in the west half of the U.S. and a potato chip bag at a certain elevation will pop. So we had to be on the right side of the Rockies. We found this out about midway through, so we wasted a lot of time. But you have to be on the right side of the Rockies to get potato chips to L.A. market, basically. So there's a lot of interesting things that go into manufacturing site selection that really make my job fun.

**Spencer Levy**

That's pretty cool. I should also note that we are in Boise, so we are contractually obligated to mention the word potato, at least two or three times.. We've got one or two down.

**AJ Magner**
Cha ching.

**Spencer Levy**
Done. So, Seth, labor, site selection, local incentives. There's a hundred directions we can go here. But where do you start the conversation with somebody looking to put a plant in the United States?

**Seth Martindale** [00:10:16] Yeah, I mean, it's difficult because it depends on what they're doing. We've done everything from tanks to tofu. It's a nice stretch of stuff we get to work on. What I would say is typically labor, as AJ mentioned, tends to be one of the most important factors we're looking at. Frankly, if you don't have enough people to work at the facility, it doesn't make any difference how awesome it is. Nobody works there. It doesn't work. So we tend to look at labor a lot. You could say the same thing with a distribution center, but the labor is usually different. It's a skilled trade that you typically need. So whether that's a tool and die operator, CMC manufacturer, electrical engineer, whatever it may be, those are a little bit harder to find. For me, the other big one that I think not a lot of people talk about, but I think it's going to be very, very important here real soon is the infrastructure requirements. AJ alluded to it earlier, especially with food manufacturing. Typically that's a lot of water and as you guys probably know in the news, water is becoming harder and harder to come by. So that's going to be interesting to see how that plays out as we go a little bit forward in the future.

**AJ Magner**
I think environmental resiliency is also an issue that is becoming a top line topic when we're doing site selection in terms of not just the earthquake, hurricane mass impact of this mass event, but sort of the baseline that we're seeing, you know, the hottest summer of record on earth this summer and how that's impacting the inside the box and how it's impacting labor in terms of executing their job in a in a plant that it matters.

**Seth Martindale**
The other thing that's kind of interesting, too, is a manufacturing plant, at least from my perspective, tends to have a longer life. So the decisions you're making are like 30 plus year decisions. So maybe temperature is on the borderline of whether or not you need to take it into consideration today. But 30 years from now, it's a lot different. Same could go with climate change impact on being near the water. I mean, there's a variety of different issues that occupiers, when they're building a new plant, have to take into consideration.

**Spencer Levy**
So AJ, turning to you, tell us a little bit more about your practice. Is it global? Tell us the types of companies you represent and some of the unique issues you might have by industry, starting with food?

**AJ Magner**
Sure, yeah. So we – I love the tofu to tanks things Seth – so we're not dealing with tofu or tanks specifically, but we have a wide spectrum of manufacturing organizations that we support. So we've got building materials, electrical components, consumer products, food manufacturing. And our practice is primarily adding value by outsourcing the corporate real

estate activities that, historically, when these organizations had large internal real estate organizations, they self performed. And over time, the pendulum has swung. And instead of having multiple service providers that are not necessarily communicating or talking to each other, customarily, our team's bringing together all these experts; the local market experts, the local brokerage experts, and really building a business case for an individual site based on the company's business case of needing a production capacity. That's really what we're doing.

**Spencer Levy**
So that's at the front end. But then once the facility is built, we're also providing services there, is that correct?

**AJ Magner**
Absolutely. Yeah. In an industrial space, one element that we've unfortunately had to focus on from an occupier perspective is the large jumps in rents in the market. And we've had to really become very succinct communicators when it comes to getting the c-suites' attention on what's going to happen to their portfolio holistically as it's impacted by what's happening in the market. So if David, by way of example, has 50 leased sites with all the lease end dates approaching in the next seven years, we're having to build a portfolio view of all the fair market value assessments that's going on at market where you are today, where that book rent or gap rent is today, and what that list means from an enterprise value perspective to the organization when you take the multiple of where that organization is trading at and what that means to the company overall. So that's what you need to do to get the C-suite attention. And otherwise you're just going to take a beating every time you have a new lease renewal coming up, and they're like, why is my rent doubling in the Inland Empire? And it's like, well, we told you this was happening holistically. So yeah, it takes a little bit higher view on the portfolio to get the attention of the C-suite.

**Seth Martindale**
I might add, I think the rent is obvious, right? That's something that we're all dealing with in it, it's certainly been a problem in terms of just renewing sites. But I think the other is like even components from construction, the lead time on those, the timing, I mean, it used to be that if someone came to you and they said, I need the site ready in three months, yeah, we can do that. And all of a sudden that timeline has shifted dramatically as well. So you really have to constantly give information to be sure they understand what the market is with.

**AJ Magner**
Absolutely.

**Seth Martindale**
Yeah. Rents, timing and everything else.

**Spencer Levy**
We have a terrific colleague of ours. His name is James Breeze. He runs our industrial research on the landlord side. And I just pulled up one of his slides because I think it's important that people understand the entire supply chain, what these costs are. And I'm just going to read a few figures from James on what percentage of your cost is rent. And so this is the breakdown of logistics costs, according to James Breeze. And so transportation costs: 45 to 70%. Think about that, 45 to 70%. Fixed facility costs: 3 to 6%. Yes, your rent may be going up at these stratospheric levels, but if you put that facility in a

more strategic spot, you might be saving yourself some money on trucking and other costs. Seth, what's your point of view?

**Seth Martindale**
Let me politely disagree. So for the manufacturing component of it, yeah, there's a transportation side of it, but if you can't manufacture anything, transportation doesn't matter anymore. You don't have any product to deliver, what does it matter? So if you're talking about distribution centers, sure, that transportation cost, really relevant. Talking about a manufacturing facility, you keeping that facility up and running is critical. It's the only thing you really care about, which is why when we saw COVID, the equation of how much risk do we have in our system to keep things running in the manufacturing system totally got rebalanced. And now you're seeing that take effect here as we see a lot of reshoring back into the U.S.. Someone took a really big wrench and threw it into a machine that was working pretty well, and now we're having to figure out how the new machines are going to work.

**AJ Magner**
The other thing I would add to Seth's comment, Spencer, is if you look at those cost categories you just rattled off, those are all variable costs. If I make one half less whatever widgets I'm making, my transportation's likely going to go down proportionately, half rougher my plus or minus. However, real estate is illiquid, long term commitments and immobile, so I can't take it and move it. I can't get out of it very easy, and I'm usually signing a lease for at least five years, sometimes 10, 15, 20. So the compounding nature of that commitment that's going in front of the board, whereas you got spot rates on freight week to week, month to month, as opposed to going to an organization and saying, hey, I want a $150 million lease commitment, it just raises the profile in the organization, when you're going through the corporate level of authority sorry, level authority and approval process.

**Spencer Levy**
I think you brought up a great point, and David, I'd like your point of view on this, because when we're dealing with real estate of different types of the difference between, say, a suburban office building and a medical office building is, they may look identical from the outside, but the amount of redundant power, the amount of redundant air conditioning, other things make a medical office building a lot more expensive, a lot more risky to run than would be a traditional office building. How does that work with say a warehouse versus a manufacturing site?

**David Varalli**
I don't want to say the warehouses are easy, but they're kind of easy, right? I mean, so it's a shell of a building. You have your dock equipment, maybe you have air conditioning, probably you don't maybe have fans. So that piece of it is easier to solve for. I mean, I think the manufacturing, the fact that it is so specialized, right? That you have to have the power, you have to have the infrastructure and everything else. That it's just a much more in-depth process and struggle to figure out.

**Spencer Levy**
So in terms of the process, and we're talking about not just getting the goods to market. We're talking about the variables beyond cost. Let's go to the variables beyond cost, because we can all agree doing things more efficiently, cheaply. We all agree on that. But there are some things that are really scarce, starting with labor. And how much does labor play into your world Seth, and how do you advise clients like David?

**David Varalli**
I mean, labor is a huge part of any decision. If you can't hire the people, you can't operate a facility which at the end of the day is going to be problematic. Along with labor, I think you've got things like infrastructure and not necessarily that like the cost of electricity or the cost of rail, but is it available? Can you actually get it? Which is problematic, right? If you can't get the power you need and you can't expand the facility the way you want to, that's going to be a problem. If you need to put a facility on the West Coast and or the Western region and you can't get any water, that's going to be a problem. So I think companies are having to face these decisions around, can they even get the things they need to operate the facility at all? And I think the question is becoming like, do you want to get cheap and really risky in terms of a facility you want to do or do you want to get expensive and play it safe? And I'd argue that most of our clients are leaning towards, I'll go expensive and play it safe just to make sure that the facility will run long term, even if it costs a little bit more.

**AJ Magner**
I think that's also the business case for reshoring manufacturing, right? We had a customer that recently literally built a plant making the same exact product next to a plant that they're closing down. And the labor intensity at the new plant is much lower. The labor quality in training is much higher. The old plant looked like a manufacturing plant. The new plant looks like a clean room with a few guys that have engineering degrees running a whole bunch of automation and producing the product at like a five time fold productivity rate. And I think if you were looking at this business decision 30 years ago, that wouldn't have been the same conclusion that the organization would have made because you wouldn't have had the labor shortage that we're facing today. You probably would have looked offshore at a lower cost market because the resiliency of the supply chain was perceived to be a lot higher than it is today. Also, I just think the political climate today is a little bit different where I think there is a China plus one strategy going on broadly in supply chains. And I think there is a bias now within organizations to decide to keep it closer to the market that's being served. I've seen that change. I mean, I started my career in corporate real estate in the mid nineties and I felt like a hatchet man. All I did was close plants in North America, clean them up and sell them. And I've done more site selections in the last three years than I did in the previous 25.

**Spencer Levy**
David, how do you deal with skilled labor versus cost of labor and all these other issues?

**David Varalli**
So TreeHouses' portfolio is U.S. and Canada. So we're kind of global, kind of North America centric, right? And it's interesting, I think as AJ was talking about the whole labor piece of this, I even think probably pre-COVID, companies had a different perspective on are we going to be willing to pay for the automation and it change how we're producing things in plants. And probably the answer to that was no. I think post-COVID, people are looking at it very, very differently and coming out of what we've been going through with the labor shortages and the struggles plants have had in maintaining manufacturing, that all of a sudden that's probably something they're willing to look at a lot closer, if not pursue altogether, just because we need to overcome those challenges that we've had previously.

**Spencer Levy**
Let's talk about the system for just a moment. So when we had the CEO of Americold on this show, he talked about what was known as the “cold chain”, meaning that when you

take a Trader Joe's peanut butter cup, and by the way, first of all, where do you manufacture them, how do you get it to the store?

**David Varalli**
Womelsdorf, Pennsylvania is where that plant manufactures those items. And so I guess we kind of have a bifurcated network, right, so we have ambient temperature warehouses. And then we also have the frozen warehouses that we make refrigerated o's, frozen waffles and items like that. And so we, we have two distinct supply chains that we have to operate within the ambient, which is usually easier to solve, easier to pick locations. And then the cold freezer areas where I mean, it's much more expensive and challenging to find those locations, particularly if you are in a tertiary market where you're producing these items.

**Spencer Levy**
So there's a Trader Joe's literally 50 feet from where we're sitting right now. I walked right past it and I, I and everybody else here is going to go load up on peanut butter cups. But, so you manufacture these things in Pennsylvania. I presume you freeze them, and then you ship them to somewhere, and it makes its way to Boise. How many different facilities do you think this peanut butter cup went to before it made it here to Boise, Idaho?

**David Varalli**
We want to touch an item as few times as possible. And so we want to get it to Trader Joe's as quickly as we can, get it in their network, and then they're the ones that are going to distribute it out. So I think it's a little bit easier from our perspective, but in the great process, it's one that has some complexities on how you get something from Pennsylvania to Boise, Idaho or elsewhere.

**Spencer Levy**
So, Seth, we had on this show a greengrocer that had about 300 locations in the United States, and they said they would not put a store more than, I believe it was 200 miles from any distribution center, because they because they were fresh foods and needed to be that proximate to the end user. How do you play into that proximity when you're dealing with manufacturing?

**Seth Martindale**
Sure. And there's plenty of examples out there. What I would say is when proximity to either distribution centers or retail locations come into play, we map those and say, hey, how important is it to be near these? And if we need to, can we add weights to all of them and basically put pins on a map and say, how close do we need to be? Where's that, what we would call the circle of indifference on a map of the U.S. looked like. So that's definitely part of what we take into consideration. But I would argue that for most of the major manufacturing plants we're working with, that circle is pretty big. They serve a pretty large geography. We're talking complete western United States or eastern United States. So usually it's a little bit bigger, but it does come into play quite often, depending on what we're working on.

**Spencer Levy**
But food is a unique item because it's perishable, right? And so the cold chain and proximity, particularly if you don't freeze it… So, Dave, let me ask you that next question, though we are all big fans of peanut butter cups, do you manufacture any goods that aren't frozen? And how do you distribute that type of good to the markets?

**David Varalli**
So we do, right? And I mean, so whether it's crackers, pretzels, cookies, all of that, we have a lot of items, right, that are going to be in the ambient network, but they all follow the same model, right? So we produce them like Manawa, Wisconsin. But then we have to figure out, okay, so it goes to our bigger DCs, goes out to the customers. And again, we try to minimize touches within our network before it gets to the customer, just to be sure that, I mean, we keep costs and everything complexity as simple as possible.

**Seth Martindale**
To David's point around touching things less in the supply chain, that same argument can be made for Mexico. A lot of the companies that we're working with, they think about Mexico and they say, well, that's an extra two or three touches as we get it across the border and so on and so forth. So that kind of hurts that decision, but at the same time, significantly cheaper, there's a lot of benefit to doing it there as well. The point I wanted to make is, we never used to see comparisons between like Monterrey and Mexico and Atlanta. That financial analysis never used to happen. Now it's happening all the time. So I have a colleague in Mexico City. Her name is Yazmin Ramirez. She does exactly what I do for Mexico. And, I mean, I talk to her more than I've ever talked to her in my almost 20 years at CBRE. So Mexico and probably to a lesser extent Canada, are definitely on the map, especially as we see that reshoring back in. So it's going to be interesting to see how that all plays out.

**Spencer Levy**
Let's now talk about the pandemic briefly. I know it's come up a couple of times today and I understand how rents went up, but tell me some of the other changes that happened to our practice pre and post pandemic.

**AJ Magner**
That's a great question.

**Seth Martindale**
I mean, what I would say is the influx of industrial projects we've had since COVID has just been crazy. I mean, we were already busy and now we’re crazy busy. And I think I was saying before that the equation, like you were saying before, the resiliency issue associated with manufacturing abroad has really come up a lot. Now, I think companies are basically saying, you know, the cheap labor rates in China were great, but now we're realizing that if something happens that disrupts the entire system and we can't get our product from China to the U.S., that's something that we can't take. So we need to move, maybe not all of that manufacturing capacity, but at least some of it back to the United States. Frankly, I think there's probably some federal and national security issues there too. So I think that it's all kind of aligned to work together as we're seeing all the reshoring of all that manufacturing back to the U.S..

**AJ Magner**
I think a market impact post COVID, it's almost a second ring of the ripple, though. It's not the first ring of the ripple, is, there's a lot of NIMBYism associated with industrial development today. There's a lack of sites whereby, you know, five years ago you went to a community with a large manufacturing project and you'd get welcomed with open arms, incentives come, here's land, here's how you got to do it, here's our people. And now communities and political entities are really taking a harder look and say, man, do we really want this use in our community? Do we want 200 trucks a day? Do we want this emission profile? Do we want this product stored in our community? And there's a lot of, as

often happens in human nature, a little bit of overreaction, I believe, in terms of the pushback on industrial development, but it's certainly constraining sites. Both the combination of this NIMBYism that's happening and the large takedown of sites over the last five years, seven years is combining to create a limited supply of sites that are particularly manufacturing sites. Seth and I worked on a project in Kentucky, Tennessee area in Ohio two years ago. We really need a rail. It was a must have requirement, I think in a 450 mile radius, we had three legitimate sites, with rail served and in meeting the other variables we need. So. I think that's probably the biggest change in terms of executing for customers in the markets post-COVID is that limited availability.

**Spencer Levy**
Dave, Let me turn to another issue as it deals with the pandemic a little bit. One of the areas of resiliency that we heard about was increasing inventories because people were afraid of, well, you know, we're not going to have these goods. The good delivery is at risk. And so we've heard about some groups adding more inventory as a result. Have you seen any of that in your business?

**David Varalli**
Through COVID and probably until relatively recently, I mean, our plants were basically producing everything they could. And so we produced it, we sold it, we shipped it out. And so I think probably one of the challenges that we have encountered is, you know, maybe we're going to be able to ship out a certain percentage of what a customer actually ordered. So they take that into account. So the next time they place an order, they're going to say, well, I'm going to order 100 units, even though I need 75, thinking if I get that 75, it's going to be all good. And so I think that that's been a struggle that we've worked through, is that maybe kind of getting the trust and being sure everyone is communicating to one another what the actual order needs to be, as opposed to maybe having a little bit of a buffer in there that they're adding on to that total that they're looking for.

**Spencer Levy**
So let me ask a rhetorical question. Is it possible to have too many peanut butter cups?

**AJ Magner**
Our waistlines, yeah.

**Spencer Levy**
So, David, turning to you now on the ESG question, how does that play into your site selection and your operation of your existing sites?

**David Varalli**
We've focused on three different areas. So environmental and climate, people and communities, and then products and operations. From a real estate perspective, the big change is all of a sudden there's maybe more visibility to how real estate can impact those, whether it's things like LEED certification, ensuring that you use sustainable materials in the construction, an interest in solar and incorporate that into the site, as well as a focus on the employees to be sure that you provide them an optimal place to work. All those have been factors, but I think one of the things that is maybe an interesting change that hopefully as a company that you're able to take advantage of is for a lot of our locations. I mean, landlords have the same ESG requirements as well. And so I think the new thing, I mean, within the past two months, we've had a lot of major landlords reach out to us and say, hey, we want to partner with you to meet their ESG goals, your ESG goals. And so maybe the positive is right, if all of these people are striving and pushing to get results that

we're going to be able to get there quicker. That sense of camaraderie is not something that's always been in place between the landlord and tenant, and so it'll be interesting to see how that plays out.

**Seth Martindale**
I mean, to your point earlier, Spencer, I mean, a lot of the machines that actually manufacture the goods that we're using now are like being developed today. So it's tough to tell what the impact will be. But I think a lot of the goal is, let's use as little power as we can. Let's use as little water as we can in that process. We're seeing that all over the manufacturing companies we're working with. Fuel mix is becoming important. And we've got these companies that have come out and made public statements. We're going to do X, Y and Z with ESG. But also there's a cost savings to that. If you use less power, it's going to be cheaper for you to produce your good. If you use less water, it's going to be cheaper. And that's today. Those things are just going to get more and more expensive. So the less you use, the better you're going to be as an operator.

**Spencer Levy**
So I'm going to ask everybody for their final thoughts here. And so why don't we start with you, David and TreeHouse Foods. Just tell us what your next five years looks like from a real estate standpoint. What are some of the key thoughts you would give to our listeners about manufacturing, where we are, where we're going?

**David Varalli**
From a TreeHouse perspective, I think it's exciting, right? So we are looking at growth, looking at opportunities, and so, we are going to be expanding. That's always a whole lot easier and better of a scenario than when you're on the other side of that coin. The other piece of that, though, is our network is going to be evolving as well. And so trying to be sure that whatever we put in place today has some flexibility component to that so that we can incorporate what changes come down the road over the next five years, as you said.

**Spencer Levy**
Great. Seth?

**Seth Martindale**
I mean, the way I see it, we've got two really big issues: labor and infrastructure. We're trying to fix the problem. We're putting it into elementary schools, even to say, hey, a skilled trade job is a successful job where you can make a lot of money. The problem is, it's elementary schools. It's going to be a while before those people hit the workforce. So it's going to take some time to get there. On the other side, you got infrastructure constraints all over the place. The federal government as everybody has seen is throwing a lot of money at that problem as well. And that's going to help. The federal government's got a big bazooka they can use with money, but it takes time for those things to get implemented. So there's going to be this gap where if we intend to bring this much manufacturing back into the U.S., we're going to have some constraints both on labor and infrastructure, but eventually we'll get over it. It’s just, how painful will that gap be before we get there is the interesting question that we're trying to figure out for our clients.

**Spencer Levy**
AJ.

**AJ Magner**

I think the globalization of our supply chain got ripped apart in COVID, and I think production capacity is going to go much closer, we're seeing it in the U.S., but it's going to happen globally, is going to go much closer to end user and end purchaser consumption. So whether that be cell phones in Vietnam instead of China or cell phone production or semiconductor production coming to North America, I just think the bias in the highest level of manufacturing organizations ff those decision makers is going to be, let's just get our capacity close to and proximate to our end consumers, and I think that's going to go on for another 10, 20 years.

**Spencer Levy**
Well, thanks, everybody, for joining the show today at the Industrial Asset Management Council's meeting here in beautiful Boise, Idaho. My third visit to Boise in three months. I'm glad I'm here. David Varalli, Director of Real Estate, TreeHouse Foods, thanks for coming.

**David Varalli**
Thank you very much.

**Spencer Levy**
AJ Magner, Vice Chairman, CBRE. Thanks AJ.

**AJ Magner**
Thanks, Spencer. It was a pleasure.

**Spencer Levy**
And Seth Martindale, who brought me my iced coffee. Senior Managing Director, Americas Consulting. Thank you, Seth.

**Seth Martindale**
Thanks, Spencer. Appreciate it.

**Spencer Levy**
In the weeks to come, we'll turn our attention to the big picture of other asset types, such as ports and data centers. And we'll focus on people too: leaders and leadership, including a visit from former United Airlines CEO Oscar Munoz to talk about his work and the growing presence of Latinos as an influential demographic. We'll have a return visit from author Jacob Morgan to talk about his new book, *Leading With Vulnerability* and lots more. It's a packed fall season on our show. Meanwhile, you can visit our website, CBRE.com/TheWeeklyTake, and you can send us questions or comments via the “Talk to Us” button on our home page. And don't forget to share the show as well as subscribe, rate and review us wherever you listen. For now, thanks for joining us. I'm Spencer Levy. Be smart. Be safe. Be well.