



How Inflation is Impacting CRE Occupiers

Part of the report published by Cushman & Wakefield, June 2022

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Inflation has recently emerged as a hot topic in real estate, and for good reason. Most measures of inflation are at multidecade highs, as a strong economic recovery paired with pandemic-related supply disruptions have kindled a surge in the costs of labor, materials, energy and other inputs companies need to operate their businesses. More recently, the war in Ukraine has exacerbated price pressures globally. Because supply chains remain bottlenecked and the geopolitical outlook is highly uncertain, this phenomenon is not likely to resolve itself soon. Central banks around the world are intervening by raising interest rates, but the knock-on effects could result in slower economic growth and more subdued commercial real estate (CRE) leasing demand for certain property types over the next several years.

In addition to the overarching macroeconomic implications, CRE stakeholders face unique challenges in an inflationary environment. Land developers struggle with materials shortages and project delays, not to mention rising land values. Asset managers incur volatile operating and maintenance costs. Investors face an uncertain pricing and financing environment. But what about CRE occupiers? While they're certainly not immune to inflation, the implications are not easy to generalize.

The key considerations that tenants should have in mind when evaluating if and how to fine-tune their leasing strategies are the following:

- Labor Costs
- Input Prices and Operational Costs
- Real Estate

In this feature, we will focus on Real Estate.



REAL ESTATE

One of the avenues through which inflation could theoretically impact occupiers is via costs for real estate. Lease types will determine how much exposure to utilities, maintenance and other variable costs occupiers will bear in real-time. Real estate costs account for up to 10% of total operating expenses and so an exploration of inflationary pressures on these expenses is merited.

Escalations

The good news is that real estate costs evolve slowly for most commercial occupiers because lease lengths tend to be five to seven years. Leases typically include a predictable escalation that enables occupiers to plan for future rental cost increases. Although such clauses can be linked to inflation, after decades of inflation stability, many leases have an escalator—a fixed number—based on a historical average of inflation. In those instances, occupiers will benefit in the current environment as present inflation far exceeds recent historical patterns. In cases where an index is used, occupiers can expect to absorb more of the recent inflationary environment. Importantly, escalation clauses also appear to be tied to local CRE market conditions more generally. For example, a majority of U.S. office markets representing more than 75% of national inventory report that current office deal escalations have remained more or less flat, despite inflation. This is not true of industrial deals, where vacancy has reached an all-time low of 3.3%

Buildout Costs

Occupiers who are leasing new space and need to build out the interior will also incur higher costs for materials, construction labor, furnishings and more. The magnitude of these costs will vary by asset type. However, some occupiers will yet again be able to benefit from softer market conditions as landlords will offer tenant improvement (TI) allowances, which subsidize this expense, as part of the negotiation process. When market conditions are weak, occupiers can capitalize on more months of free rent (possibly avoiding paying rent for all or part of the period in which the buildout is occurring) and attain higher TI

continued on page 2

How Inflation is Impacting CRE Occupiers

continued from page 1

allowances. Not only will this vary by property type and subtype, but also by class and market as conditions can and often do vary greatly around the country.

For those tenants building out their space, construction materials pricing will be significantly higher than it was pre-pandemic. Broadly speaking, the PPI for construction materials is up 19.6% year-over-year as of April 2022. Compared to February 2020, key materials have recorded whopping price increases: PVC and plastic piping (129.4%), aluminum (102.7%), iron/steel (88.5%), lumber (49.8%), gypsum (30.8%), and fiberglass (13.8%). Many occupiers will not need these materials in their raw form except those pursuing build-to-suit options, as developers are largely bearing the brunt of these cost increases. The PPI indices for furniture, commercial electric lighting, and office supplies are up 11.8%, 10.2% and 7.2% year-over-year, respectively.

Cushman & Wakefield studied both construction delays and costs. The builder sentiment survey illustrates that costs pressures are being felt throughout the industry. Almost all (98%) surveys contractors indicated their supplier costs increased in the past six months, and 85% of contractors had raised their prices since the middle of last year. Expectations for future costs remain elevated with 96% of respondents expecting their supplier costs to increase further in the next six months. This is particularly true for furniture, fixtures, and equipment (“FF&E”) expenses.

Base Rent

Probably the most important issue is, of course, the starting rent itself, the number upon escalations and concessions are applied. Yet again evidence suggests that market conditions more generally are driving rent patterns versus broader inflation, which should be good news for tenants.

Occupiers should be more focused on broader market conditions when searching for space during period of high or low inflation. At present, industrial vacancy is at the lowest point on record (3.3%) whereas office vacancy is at 17.5% and is still likely to trend higher as new supply comes to the market. For retail shopping centers, vacancy held up fairly well during the pandemic and is now below pre-pandemic levels. Not surprisingly then, industrial rents are under the most upward pressure, with retail rents growing by at a more subdued pace. Office rents are still declining but likely near their trough. Given the tremendous variation by market and property subtype, occupiers should invest substantial effort in understanding these dynamics as they consider locations and potential lease decisions.



Member Voices:

How is inflation affecting your daily life and what are you doing to manage raising costs?



Karen Ehrenworth

I am cooking more often. My food shopping is more focused on healthy options. I purchase more wisely and buy in bulk.



Kelley Douglass

I combine all my appointments and go to New York City more intentional!



Veronica Stampfl

I go through items I have at home and in storage more often and make purchases more consciously.



Banafsheh Soltani

I am limiting my commute and try to walk to close by areas when possible.

Knowledge for CRE Business Strategy – Diversity, Equity & Inclusion

By Lizzie Archer

The DEI Committee organized a training program which focused on DEI basics and strategies as part of their Diversity Equity and Inclusion training initiative.

The two-part program was conducted and led by diversity consultant Sherry Snipes of Global Diversity Collaborative.



PART I: DEI Basics

Build cross-cultural capacity - Participants worked to develop cultural competencies and raise personal and professional consciousness around diverse issues which includes understanding various elements of diversity, equity, inclusion, and belonging, and their importance in society and within organizations.

Participants learned about common DEI terms such as Diversity, Inclusion, Equity, Culture, Social Justice, Privilege, among others. Discussions covered dimensions of diversity such as ethnicity, LGBTQ+, religion, gender, disabilities, as well as national, regional and industry demographics.

A recent Bella Research Group and Knight Foundation study found that OF SENIOR EXECUTIVE JOBS IN THE U.S. COMMERCIAL REAL ESTATE INDUSTRY:

- 75% White men
- 14.1% White women
- 1.3% Black men
- 1% non-White women

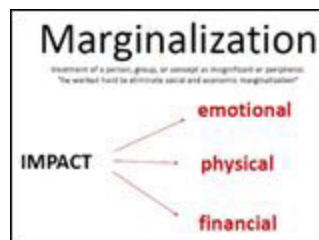
Based on a recent Bella Research Group and Knight Foundation study, it was recommended that an examination be made as to why women and racially diverse people have such a low representation in the industry and work to balance out these statistics.

Explore and understand individual and group biases

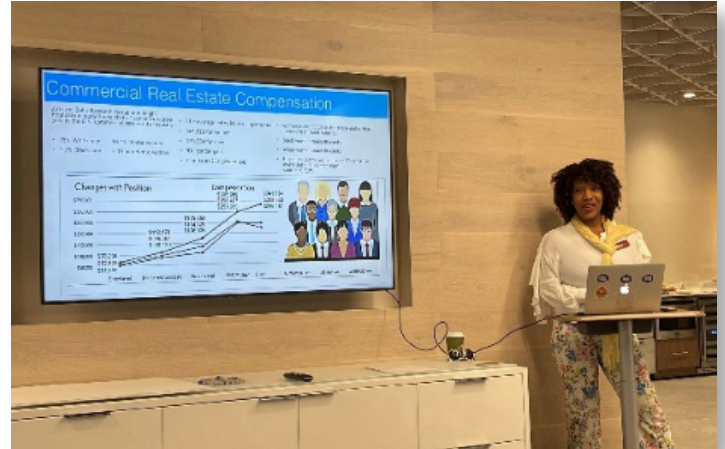
– Participants reviewed types of conscious and unconscious biases and explored the impact of stereotypes and marginalization in business.

Strategize Methods to Foster Industry Diversity, Equity, and Inclusion

- Sherry coached the group to enhance the practice of inclusion and belonging. Participants strategized ways their companies can encourage the development of personal and professional action plans to foster a culture of inclusion.



PART II: Strategizing for a DEI pathway forwards



Sherry stated that this was an “opportunity to shape the future of the organizational focus on DEI through conversations and ideas that matter” based on four key topics: Leadership, Volunteers, Community/Pipeline and Education/Resources.

LEADERSHIP: How do we cultivate and attract diverse leadership to our companies, to CoreNet and to the Corporate Real Estate industry?

- Leadership commitment to diversity
- Build relationships with diverse organizations
- Promoting within/mentoring
- Take action when you see/experience social injustice
- Education and training on DEI
- Widen the net – recruit from afar (leverage remote work environment)
- Hire from local workforce
- Enhance company culture
- Identify professional programs

VOLUNTEERS - What additional training and support do we need for CoreNet members to foster a strong sense of inclusion and belonging in all CoreNet Global education and networking offerings?

- DEI Committee
- DEI Icebreakers (share stories)
- Get the DEI people from member firms to share best practices
- Diversify panels at events
- Employee Resource Groups at companies
- **Workshops about DEI**
- Create opportunity for immersion
- Empower
- Support organizations highlighting the DEI initiative
- Identify company advocates
- **Unconscious Bias awareness (Education)**
- **Toolkit to provide workplace resources**
- Creating a safe environment
- Access to 3rd party resources
- Celebrating/promoting wins

continued on page 4

continued from page 3

COMMUNITY/PIPELINE – How do we grow a diverse pipeline of talent for the corporate real estate profession, attract diverse students, and aid our members in identifying diverse talent for internships and job opportunities?



- Outreach to diverse universities to teach CRE and identify young talent
- Internships and mentoring programs for diverse students
- Utilize social media to reach out to students (TikTok, snapchat) Make it fun and meet them where they are

EDUCATION/RESOURCES - How can we grow a library of resources to cultivate a greater understanding of how to support diversity and inclusion within our companies and the chapter?

- Education and workshops on the different facets of DEI
- Toolkit to provide workplace resources
- Training & support

When it comes to DEI, there is no one size fits all and each organization/company must figure out what is right for them. The strategies listed, that the participants developed, may give some ideas and inspiration.



Special thanks to [Sherry Snipes](http://www.globaldiversitycollaborative.com) of Global Diversity Collaborative (www.globaldiversitycollaborative.com) who did a great job guiding the participants through these two DEI workshops; the event sponsors, [Denholtz Properties](#), [CreativeOfficeResources](#), FCA, and GPI / [Greenman-Pedersen, Inc.](#); and to the [Association & Conference Group, LLC](#) team [Terri St. Jacques](#) and [Kathleen Doran](#) for helping keep the committee organized.

CORENET NJ DEI COMMITTEE CO-CHAIRS:

Kristine Hurlbut - khurlbut@denholtz.com

Lizzie Archer - larcher@fcarchitects.com

DO or “DEI” – UPDATES FROM THE DIVERSITY EQUITY INCLUSION COMMITTEE

The CoreNet NJ DEI Committee hit the ground running in 2022 with a mission statement, a charter, several recommendations to the board (such as having a DEI Sponsorship option or including a DEI Leader of the Year award as part of the Chapter's new Awards program). Whether or not all of our ideas are adopted by the chapter, we are sharing best practices as we learn from CoreNet Global, other CNG chapters and even other organizations and raising awareness for infusing DEI into every aspect of the Chapter and providing DEI resources to the members.

CoreNet New Jersey Chapter Diversity/Equity/Inclusion (DEI) Statement

We commit to promoting an inclusive environment and eliminating discrimination within our chapter and the greater NJ corporate real estate industry. We do not support discrimination in any form – including race, skin color, national origin, gender, gender expression, sexual orientation, disability, religion, or age. As we work to find ways our chapter can foster a diverse and inclusive culture, we will embrace the five tangible actions identified by CoreNet Global to achieve our goal: Leadership, Volunteers, Resources, Education, Community:

- **Leadership.** CoreNet Global will prioritize strategic inclusion at the board and staff level driving action together to cultivate and attract diverse leadership talent.
- **Volunteers.** The strength of our association comes from our dedicated member volunteers. We will provide additional training and support to ensure these champions of corporate real estate foster a strong sense of inclusion and belonging in all CoreNet Global education and networking offerings.
- **Resources.** CoreNet Global will grow its library of resources to assist members in a greater understanding of how they can support diversity and inclusion within their own companies.
- **Education.** We will provide new and timely educational content focused on these important issues through all of our content delivery channels.
- **Community.** We will continue to grow a diverse pipeline of talent for the corporate real estate profession. The association will enhance our career resources to aid our members in identifying diverse talent for internships and job opportunities.

We will guide our members to lead by example and will partner, where necessary, with diversity and inclusion experts to provide a welcoming environment.

RECENT EVENTS & ACTIVITIES

April 4, 2022 - The DEI Committee hosted an event, at Denholtz Properties to the Academic Alliance that provides job/college readiness skills to racially diverse high school students. A presentation about the CRE career path was given to the students.

April 5, 2022 – Hosted part one of a DEI training series: “Elevating Knowledge - Diversity, Equity & Inclusion CRE Business Workshop” for 30 people at the Creative Office Resources showroom.

May 5, 2022 – Held a committee meeting at the Black-owned, Four City Brewing Company in West Orange.

May 13, 2022 – Held a committee meeting at was once the Black-owned Shady Rest Country Club in Scotch Plains.

May 24, 2022 – Hosted part two of a DEI training series: “Aligning Knowledge for CRE Business Strategy - Diversity, Equity & Inclusion”. Check out the full article about the series in this newsletter.

June 2, 2022 – Members of the Committee attended a Pride event at Denville's EDGE facility with their families and plan to return with the full committee for a sensitivity training around LGBTQIA+

Project Spotlight:

150 & 151 Tornillo Way, Tinton Falls, NJ Deholtz Properties



Denholtz Properties recently completed construction of 150 and 151 Tornillo Way which are two small bay Class-A industrial/flex buildings totaling 50,024 square feet in the premier industrial submarket of Tinton Falls, New Jersey. Located on a seven-acre site straddling Tornillo Way just minutes from Route 18 and Exit 105 on the Garden State Parkway, the two-building industrial development project taps into the record demand for flex/industrial space in the Monmouth County market.

150 Tornillo Way's building reflects the highest standards in flex/industrial construction. The property features eleven 2,400 square foot units, dedicated drive-in and tailboards, and a modern, adaptable design with 1,920 square feet of warehouse space with 480 square feet of office space in each unit. Paired with a tremendous location providing superior access to regional transportation arteries, 150 Tornillo Way has seen high demand from a wide range of users and is currently leased to tenants such as Design Floors, Trident Computer Resources Inc., Snoga Athletics and Fertile Globe Inc.

With an exterior design matching that of 150 Tornillo Way, 151 Tornillo Way's seven units ranges in size from 2,400 – 4,440 square feet and boast dedicated drive-in and tailboards ensuring adaptability to a wide range of uses. 151 Tornillo Way opened its doors in March of 2022 and the whole building is occupied by one tenant.



Member Spotlight:



Shane Whelan

KBA Lease Services
Senior Associate

How long have you been a member of CoreNet?

Since 2018

Why did you join CoreNet?

Ultimately, I joined to build relationships and become a well-rounded CRE professional. My manager first recruited me to CoreNet by attending Global NA Summits. I then began attending events at my local chapter level. Everyone was so welcoming and helpful. I give extra credit to two current chapter officers, Marianne Zeller and Liz Archer, for their hospitality and getting me involved as a volunteer/board member.

What is your favorite part of being a member of CoreNet?

Easy. First, the people. The community is very welcoming. There is a second that I would be remiss if I didn't mention which is that being part of CoreNet equips me with knowledge of the CRE ecosystem beyond my niche industry.

What are your general job responsibilities or areas of expertise?

I am responsible for business development which means I am expected to identify business growth opportunities and subsequently cultivate and nurture relationships with those that may benefit from our work. I have spent the past 8 years becoming a subject-matter-expert on the global market for lease audit opportunities.

What do you love most about your industry?

Lease audit and advisory services is the last thing people think about in the CRE lifecycle. This creates challenges, but it also creates an enormous amount of opportunity for both end user and service provider.

What advice would you give to someone who wants to enter your field?

The industry has become heavily commoditized but to deliver high quality results for clients, you must avoid this route.

What's one thing, industry-related or not, that you learned this past month?

I think I am continually learning that the perceived value of lease auditing is much lower than what we actually deliver.

What's a fun fact about you that not many people know?

I have bowled two 300 games and formerly held my High School bowling record for all-time high average in bowling, 217 (my younger brother now holds that title).

The best piece of advice I ever received was...

Always say please and thank you. -Grandpa Whelan

One thing I can't live without is...

My faith, which teaches me to walk humbly and peacefully with others, but also requires me to decompartmentalize and share the love, grace and truth that I believe in.

Some of my favorites...

Book: Crazy Love by Francis Chan

Food: Seafood

Vacation Spot: Cape May

TV show (past or currently watching): Yellowstone, binging currently, just finished Season 2

Hobby: Fishing and Kayaking

Event Recaps:



Networking @ TopGolf at 1776 Morristown

A fun-filled members-only networking event took place last April 12 at the 1776 Top Golf Swing Suite in Morristown. Guests practiced their golf swings while others chatted with fellow members, enjoying the delicious food and cocktails.

Community Outreach Earth Day Clean-Up & Habitat for Humanity

In celebration of Earth Day, CoreNet members volunteered to clean up the trash in and around Smith Field Park in Parsippany.

Last June 3rd, members volunteered their time and skills to Habitat for Humanity by painting the interiors of a house being built for Habitat homeowners at Old Bridge, NJ.



P3 Partnerships: A Path for Progressive Development



Last May 18, CoreNet New Jersey's Education Committee hosted a highly informative discussion on P3 Partnerships. This model of public private partnerships has created opportunities for development throughout the state of New Jersey.

The dynamic discussion focused on the legal provisions within the P3 framework in NJ, best practices to adopt when evaluating and executing a P3, and highlighted case studies of various P3 projects, its goals, successes, and lessons learned. The panel, led by moderator Susan DiGiacomo (Cumming Group), and panel members, Peter Wolfson (Day Pitney LLP), George Thomas Vallone (Hoboken Brownstone Company) and Lara Schwager (PIRHL), discussed some of the most informative content presented by CoreNet NJ in recent years.

Empowerment in the Workplace

On Thursday June 19th over 30 women gathered to spend some time talking and hearing from Sarah Walton. Sarah is an author, speaker and business mentor whose mission is to have every woman she works with love their work, be fulfilled and make good money doing what they love. Everyone walked away with insight and a few challenges. Our homework assignments were:

- Reach out to your friends and ask them how they're doing (and don't let them tell you about everyone else!)
- See if you can find your 3 "life moments", where you decided 3 things about yourself. These lies and limiting beliefs are things you said as a child. You can "unsay" them as a grownup. If you're ever unhappy with your current results, ask yourself: «What would someone have to believe about themselves to create these results?"

Beliefs- create your Thoughts – create your actions - which create your results.

It was a wonderful to see all the special woman in our industry come together in person and have some fun networking and sharing stories.

A special "thank you" to our event sponsor HITT Construction. We appreciate your support.



Member News:

Oscar Leo Lloyd



Oscar Leo Lloyd arrived in the early hours on April 16th! Weighing 6lbs 2oz, mom Jennifer Kozicki Lloyd (Audible) says her little peanut is doing well and is already so loved!

Landon Brzostowski



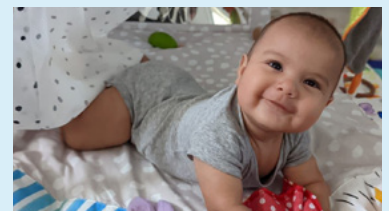
Cheers to Justin Brzostowski (AIS) and wife for the birth of their first child, Landon, born on June 1 at 12:58 pm. 6 lbs, 18 ¼" long.

Callahan Robert Holloway



EB member Christie Mullen (Structure Tone) and her husband, Ben, welcomed their second child, Callahan Robert Holloway, on March 28, 2022. Cal, is now talking up a storm is a great sleeper. "Babies bring a whole new perspective to life - watching them grow, learn, and experience the world, truly makes you grateful to be part of the journey. Watching Laney become a big sister has been a bonus!"

Bruno Gonzalo Negron



Bruno was born February 24, 2022, to Matthew Negron (Dauphin) and wife, Wendy. Bruno is in the 90th plus percentile for all his measurements and is already rolling, trying to crawl and expressive with sound. "The best thing about being a parent is that this is a once-in-a-lifetime opportunity to see the world through Bruno's perspective, appreciate the little things, and recognize every moment in life is truly a gift."

Make the Most of Your Membership... Volunteer Today!

Active members of the New Jersey Chapter will tell you that peer-to-peer networking and gaining value from the chapter starts at the committee level. There are many opportunities to participate no matter how much (or how little) time you have to give. View an active list of Committees and Committee Members [here](#).

If you are interested in joining a committee, please fill out the form [here](#). A Committee Chair will reach out to you and let you know how to get started.



Save the Date!

Registration and Details to Follow on These Exciting Events

August 31:
Young Professional RE & Facilities Happy Hour
(with CREW & IFMA)
Homestead Bar & Kitchen, Morristown

September 7:
Wellness Outside the Workplace Hike
Loantaka Park, Morristown

September 20:
Lunch with a Leader
TBA

September 22:
Building For The Future - DEI & CRE Panel Discussion
333 Thornhall Street, Edison

September 28:
Organon's Hybrid Work Strategy & HQ Tour
30 Hudson Street, Jersey City

October 6:
End User Roundtable - HR & CRE Alignment
Ruth's Chris Steakhouse, Short Hills

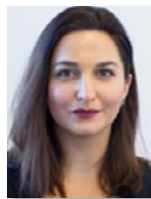
October 20:
Women's Group - Sustainability Panel Interface
Structure Tone LLC, 10 Woodbridge Center Drive, Woodbridge

October 27:
Sponsor Appreciation Event
TBA

November 17:
Fall Harvest & Commercial Real Estate Awards Banquet
Click [HERE](#) to submit a CRE Executive of the Year nomination
Click [HERE](#) to submit a YL of the Year nomination
Click [HERE](#) to submit a DEI Leader of the Year nomination
TBA

Visit the [events section](#) of the chapter website for more information and to register.

Communications Committee



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Banafsheh Soltani



Co-Chair:
Veronica Stampfl



Committee Member:
Karen Ehrenworth



Committee Member:
Kelly Douglas

Welcome New Members

Michelle Bone • JLL

Timothy Burton • PCA Consulting

Sabrina Chua • Takeda Pharmaceuticals International AG Singapore Branch

Leslie Cook • IMC

John Covey • EvensonBest LLC

Wilfrido DelSalto • IST Management Services Inc

Carlie DeMelo • Organon

Kathleen Eggenberger • E2open, LLC

Mike Feeman • ISS A/S

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Emir Hot • Matrix Technology Group LLC

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Letter from the President

Dear Chapter members,

As 2022 quickly passes by, our New Jersey committees continue to engage in dynamic ways to deliver content as well as opportunities to grow and connect.

In this month's newsletter, we highlight the important work our DEI committee is doing to accelerate the conversation around equity and inclusion in New Jersey. Based on the attendance and response for each of these sessions, we know they are relevant and meaningful to so many of our members. Be on the lookout for more!

The topic we have captured in this newsletter, Inflation, is one that is front of mind for so many business leaders. As we navigate a world that has been impacted by the lingering pressures of the pandemic and worldwide economic issues, it is increasingly important to understand the impacts of these on the corporate real estate community and how we can best prepare for the what the future might bring.

CoreNet, NJ is always looking for ways to support our members and our community with opportunities to elevate your knowledge and ability to adapt to an ever-changing landscape. We hope the content you are seeing reflects those goals.



Enjoy the remaining days of summer and I look forward to seeing you soon.

Sincerely,

Mary Beth Sullivan
Regional Vice President, Teknion
President, New Jersey Chapter
CoreNet Global

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