



THE **BINSWANGER** BRIEF

Physical AI and the New Calculus for Warehouse,
Distribution, and Manufacturing Occupiers

LABOR, TURNOVER, AND THE CASE FOR PHYSICAL AI

Warehouse, distribution, and manufacturing operators are facing a labor market that has become harder to plan around. Wages have been rising, skilled workers are difficult to retain, and turnover in high-volume logistics markets remains stubbornly high. For occupiers, the natural response has been to look at automation. What is changing in 2026 is the kind of automation being deployed, and what it requires from the buildings that house it.



THE LABOR PICTURE

Bureau of Labor Statistics data shows average hourly earnings in warehousing rose from \$26.01 in October 2025 to \$26.57 in January 2026, continuing a multi-year climb. Nationally, private-sector wage and salary growth ran at 3.4 percent for the twelve months ending in March 2026, per the BLS Employment Cost Index.

Turnover and vacancy are the more structural problem. According to a July 2026 PitchBook analysis of the physical AI market, labor accounts for 50 to 70 percent of total warehouse operating costs, the sector carries vacancy rates above 6 percent even in nonpeak periods, and large fulfillment centers see annual turnover of 100 to 150 percent, meaning operators are effectively hiring and training a full replacement workforce every eight to twelve months. Combined with wage growth, the effect on training costs, error rates, and supervisory overhead is significant enough that automation has shifted from a cost-saving option to a structural necessity for many operators.

WHY PHYSICAL AI IS A DIFFERENT KIND OF AUTOMATION

Traditional warehouse automation relies on explicit, preprogrammed rules. It performs well under the exact conditions it was designed for, and it breaks down, or requires costly reprogramming, when those conditions change, such as a new SKU, a layout change, or an unfamiliar object in a robot's path. Physical AI works differently: these systems learn from sensor data, camera input, and outcomes, and generalize to new situations they were never explicitly programmed for, much the way an experienced worker adapts to a task variation without needing new instructions. The tradeoff is that their behavior is probabilistic rather than binary, which makes safety certification around human workers a harder problem than it was for older, rule-based equipment. NVIDIA and other vendors have begun building dedicated certification frameworks to address this gap.

That flexibility is attracting capital fast. PitchBook reports that capital raised across physical AI companies in the first half of 2026 more than doubled full-year 2025 totals, with deal counts nearly matching all of 2025 and several individual rounds exceeding \$1 billion. Deployment at scale remains concentrated among large, well-capitalized operators. Amazon has installed its one millionth warehouse robot across more than 300 facilities, and Walmart has committed \$330 million to modernize a single distribution center as part of a broader plan to upgrade all 42 of its regional centers. The technology carries real execution risk: Kroger recorded a \$2.6 billion impairment tied to a struggling automation partnership, a reminder that capital alone does not guarantee a successful deployment.

WHAT THIS MEANS FOR OCCUPIERS



For companies that occupy warehouse, distribution, and manufacturing space, the strategic question is no longer whether to automate. It is whether the buildings in the current portfolio, and the buildings under consideration for the next lease or purchase, can actually support it.



Buildings selected purely on location, rate, and square footage may lack the clear heights, floor flatness, slab load capacity, column spacing, or power infrastructure that modern robotics fleets require. Retrofitting an unsuitable building is possible but rarely cheap, and it is almost never fast. A well-specified building gives an occupier real options: deploy automation now, phase it in over time, or hold it in reserve as a lever against rising labor costs.



Power deserves particular attention. Robotics fleets, charging infrastructure, and the sensor and compute layers behind physical AI add meaningful electrical load to buildings that were often designed for lighting and basic material handling equipment. Understanding what a site's utility can actually deliver, not just what is theoretically available, belongs in due diligence alongside zoning and access.

EVALUATING A FACILITY FOR AUTOMATION READINESS

When assessing a warehouse, distribution, or manufacturing facility for physical AI and robotics deployment, key factors include:

✓ Power & Utilities

- Available capacity vs. deliverable capacity
- Redundancy and backup feeds
- Cost and long-term pricing stability

✓ Structural & Floor Specs

- Floor flatness (F-number) for AMRs/AGVs
- Slab strength and load capacity
- Column spacing and clear height

✓ Connectivity & Data Infrastructure

- Fiber and wireless network readiness
- Sensor and compute integration points
- Cybersecurity and system redundancy

✓ Layout & Expansion Flexibility

- Open floor plans that accommodate reconfiguration
- Dock door count and trailer staging
- Room for phased automation rollout

✓ Retrofit Potential

- Feasibility of upgrading existing buildings
- Cost and downtime of retrofit vs. relocation
- Age and condition of electrical systems

✓ Regulatory & Zoning

- Local permitting for robotics and automation
- Fire and life-safety code compliance
- Labor and workforce transition considerations

By evaluating these factors before committing to a site or a lease, occupiers can ensure their real estate decisions support their automation roadmap rather than constrain it.

HOW BINSWANGER HELPS OCCUPIERS PLAN FOR PHYSICAL AI

Binswanger has spent nearly a century advising occupiers of industrial, manufacturing, and mission-critical facilities. As physical AI reshapes what a warehouse or distribution building needs to deliver, that expertise increasingly starts with a version of the same question: does this building support where the operation is going, not just where it is today?

Binswanger works with clients to evaluate power capacity and utility deliverability, assess structural and layout readiness for automation, weigh retrofit potential against relocation, and build automation criteria directly into site selection, whether a client is acquiring, expanding, consolidating, or divesting.

In short: if your labor strategy is shifting toward physical AI and robotics, your real estate strategy needs to shift with it. Binswanger can help ensure the building itself is not the constraint.

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His international advisory experience includes work with Bombardier Aerospace, ExxonMobil, Nextel, Gillette, Exelon, Shell, Kohler, Urban Outfitters, and Amgen. Before joining Binswanger, John was General Director of Worldwide Real Estate for General Motors and previously served as Worldwide Director of Corporate Real Estate Services for Arthur Andersen LLP.