

SHIFTING GLOBAL RETAIL TRENDS

CREATING INDUSTRIAL REAL ESTATE OPPORTUNITIES

Industrial brokers and developers face a rapidly evolving landscape as the global retail marketplace begins to change. The proliferation of e-commerce as a central means of conducting business, new streamlined shifts in global market supply chains, meteoric rise of globalization, and bulk warehousing – all of these trends have created opportunities for real estate professionals when it comes to improving their logistics knowledge, products and service delivery.

It is no secret that industrial real estate is changing just as rapidly as the economy overall. The advent of global e-commerce, in particular, has increased the overall need for industrial space greatly, and properties now need to be fully equipped to directly interact with e-commerce customers at all times. A 2013 JLL report pegged e-commerce as a growing demand driver, with retail overall – inclusive of e-commerce – accounting for a third of total industrial space requirements. Recent Deloitte projections also show that e-commerce is growing at five times the rate of traditional retail and will stand at approximately 10 percent of all retail sales by 2017 and 30

percent by 2030 or sooner. As a result of this anticipated growth, the creation of new logistics models is indispensable: the supply chain has been permanently transformed.



Mega-distribution centers strategically located in key ports or high-density metropolitan areas must be able to reach tiny urban delivery posts with speed, and a new class of logistics and distribution properties will have to be developed, as potential changes in ground transportation law will also force the need for more strategic and consumer-proximate distribution center locations (proximity to a transportation hub allows for longer daily-order fulfillment cycles and is likely to reduce shipping costs).

Since this new technology has changed logistics models so drastically and produced significant cost reductions in the supply chain, what it also offers is an opportunity for companies to build more efficient buildings and transportation networks. Since so much more material is now being transported daily, it is in the best interest of industrial realtors to create logistics models allowing for maximum-capacity load transport, thereby reducing fuel costs and the opportunity costs of losing valuable shipping time. In the end, both retailers

and developers will have to collaborate to capture the dynamic complexities in the future supply chain.

On top of these changes, competition is increasingly pushing vendors to conduct business globally. Because of this, industrial real estate professionals must monitor and adapt to a changing worldwide marketplace. As multichannel retailing increases access to the American market for foreign retailers, commerce has grown rapidly in Europe, Latin America, and especially China and the Asia-Pacific region. Boston Consulting estimates that 30 million Chinese consumers will shop online for the first time each year in the foreseeable future.

Statistics show that 22 percent of global online shoppers made their first online purchase within the past year. And of course, this kind of transnational business will present critical complexities for retailers. They will be expected to provide a simple and seamless shopping experience for their customers; be it via traditional brick-and-mortar shopping or via computer, smartphone, or tablet.

Multichannel platforms, which sell products either online or in a store, must be replaced by omnichannel delivery models to effectively integrate both online and offline distribution. Merchandise returns (often across international borders) along with the complicated implications for indirect taxation will also be major challenges that retailers will have to deal with (not to mention the pressures to reduce warehouse shelf time and expedite supply chains). These challenges also present major economic opportunities for industrial developers and landlords.

While technology has advanced to support international retail, logistics infrastructure is once again still underdeveloped, and industrial real estate companies must take the initiative in logistics innovation to create strategic, efficient, and secure industrial spaces. With this in mind, it is critical that industrial real estate companies take measures to ensure that global exchange (even if expedited in the modern world) will still be conducted successfully.

Lastly, in today's increasingly competitive world, many mega e-fulfillment centers also must operate 24/7 — sometimes with 1 million square feet or larger spaces available for use. The anatomy of the new bulk warehouse/fulfillment center requires heavier floors, greater ceiling heights, more land for truck storage, more trucks overall, faster distribution systems, and greater employee manpower to process inventory flow.

Increasing demand for such scarce Class A space also has the capacity to raise rent prices overall and has recently promoted more speculative development, with nearly 40 percent of the 2014 market's 110.9 million available square feet based on speculation. All of this has to be delivered with efficiency and sustainability as top priorities — not just because of the positive CSR benefit associated with these goals — but because of the need for more industrial capacity and the anticipation of new municipal regulatory requirements in response to these changes.

Industrial real estate professionals who take a proactive leadership position now will be able to meet the needs of clients and the marketplace. While pressing issues, all of these significant new factors affecting the global industrial real estate market should ultimately motivate industrial professionals to innovate and succeed in the new environment.



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