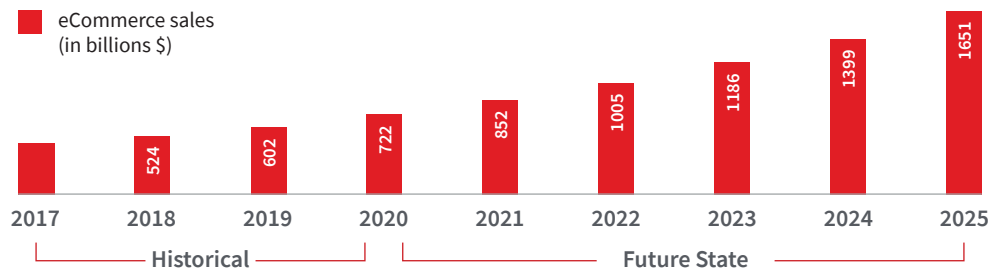


Industrial real estate demand on the rise in the U.S.

JLL projects growth of over 1 billion square feet by 2025



Investing in industrial real estate was never considered as attractive as office or retail in the past. However, this dynamic has changed, in large part, due to the growth of e-commerce. Investing in industrial real estate is red hot and the continued growth of consumer online shopping drives the need for additional warehouse space. Industrial real estate — including plants, warehouses and distribution facilities — has been the investment “asset class of choice” the past several years and demand is on the rise.

“Since 2011 industrial rent growth has been positive and vacancy rates have been at historic lows providing attractive, stable, long-term returns to investors. These solid fundamentals and the fact that e-commerce still has a long runway for growth makes industrial real estate the darling of the commercial real estate industry,” according to Craig Meyer, JLL’s President of Industrial Services and a 40-year industry veteran.

Industrial real estate is the *darling* of the commercial real estate industry

Growth of e-commerce sales in the U.S. has averaged 14.5% over the three-year period from 2017 to 2019 but represented just 16% of total retail sales at the end of 2019, per Digital Commerce 360. It is

expected to grow as much as 30% or more, so there is a lot of room for expansion.

“We have historically attributed as much as 35% of industrial leasing to e-commerce. Currently, as much as 50% of our leasing activity can be attributed to e-commerce related operations,” says Meyer.

“E-commerce has been one of the biggest game changers to supply chain management since the introduction of the world wide web and the internet,” according to Rich Thompson, JLL’s Global Supply Chain & Logistics Consulting Leader. “It has fundamentally changed the way consumers buy as well as their expectations for delivery,” Thompson adds.

The COVID-19 pandemic and shelter-in-place policies that ensued have accelerated both the growth and adoption rates of e-commerce. According to Digital Commerce 360, sales hit \$602 billion in the U.S. at the end of 2019. JLL expects it to grow as much as 20% in 2020 and projects that sales could hit \$1.5 trillion by 2025.

“E-fulfillment is among the most intensive uses of logistics real estate,” reports Chris Caton, Head of Global Strategy & Analytics for Prologis, the largest owner, operator and developer of logistics real estate in the world. “Prologis estimates these customers will require 1.2 million square feet of distribution space for each \$1

billion in sales, which means e-commerce requires three times the space as traditional through-put distribution.”

JLL has done their own research, due diligence, and consulted with other experts in this area and concludes this to be a reliable metric. Given our projections for e-commerce growth through 2025, an additional \$900 billion in sales would equate to a demand for over 1 billion square feet of industrial real estate by 2025.

JLL projects demand for an additional 1 billion + square feet of industrial real estate by 2025

These projections do not take into account what percentage of the 1 billion square feet would be “net new” space or repurposed existing space. The projections also do not take into consideration three other important positive influencers:

1. Growth and evolution of the larger business-to-business (B2B) segment.
2. Anticipated increases in inventories or safety stock levels.
3. Some level of resurgence in U.S. manufacturing.

JLL fully expects additional demand for industrial space associated with each of the above.

E-commerce fulfillment or business-to-consumer (B2C) operations are much different from the more traditional B2B distribution operations as they are focused on individual orders in a pick and pack environment versus pallets of product. As consumer expectations have changed from their experiences with e-commerce, so have those in the larger B2B segment.

“Businesses are asking themselves, hey, if I can get my personal items delivered in one to two days for free, why does it take five to seven days to get office supplies to my place of business?” adds Thompson.

The layout and design of e-commerce facilities is often times very different. They typically employ as many as three times or more the number of employees in the same size building as a more traditional distribution center, are often automated with either material handling equipment or robotics, require more land for parking, carry more products or stock keeping units (SKUs), and often must deal with returns. “E-commerce operations and the facilities that house them are typically very customized to suit the specific needs of the fulfillment operator,” according to Thompson.

One of the fastest growing aspects of e-commerce has been online grocery. It has exploded during the pandemic as many households experimented for the

first time with ordering online for pick-up or delivery. Surveys suggest that this trend is expected to continue post-pandemic. JLL projects the growth of cold storage facilities alone to grow as much as 100 million square feet by 2025 to keep up with overall demand.

Although the pandemic currently casts a fog over the economy and there is concern for individual health and safety, one thing appears clear... the continued growth of e-commerce and direct-to-consumer delivery channels will maintain strong momentum. This, in turn, will no doubt drive increased demand for industrial real estate for several years to come.

Think about it.

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