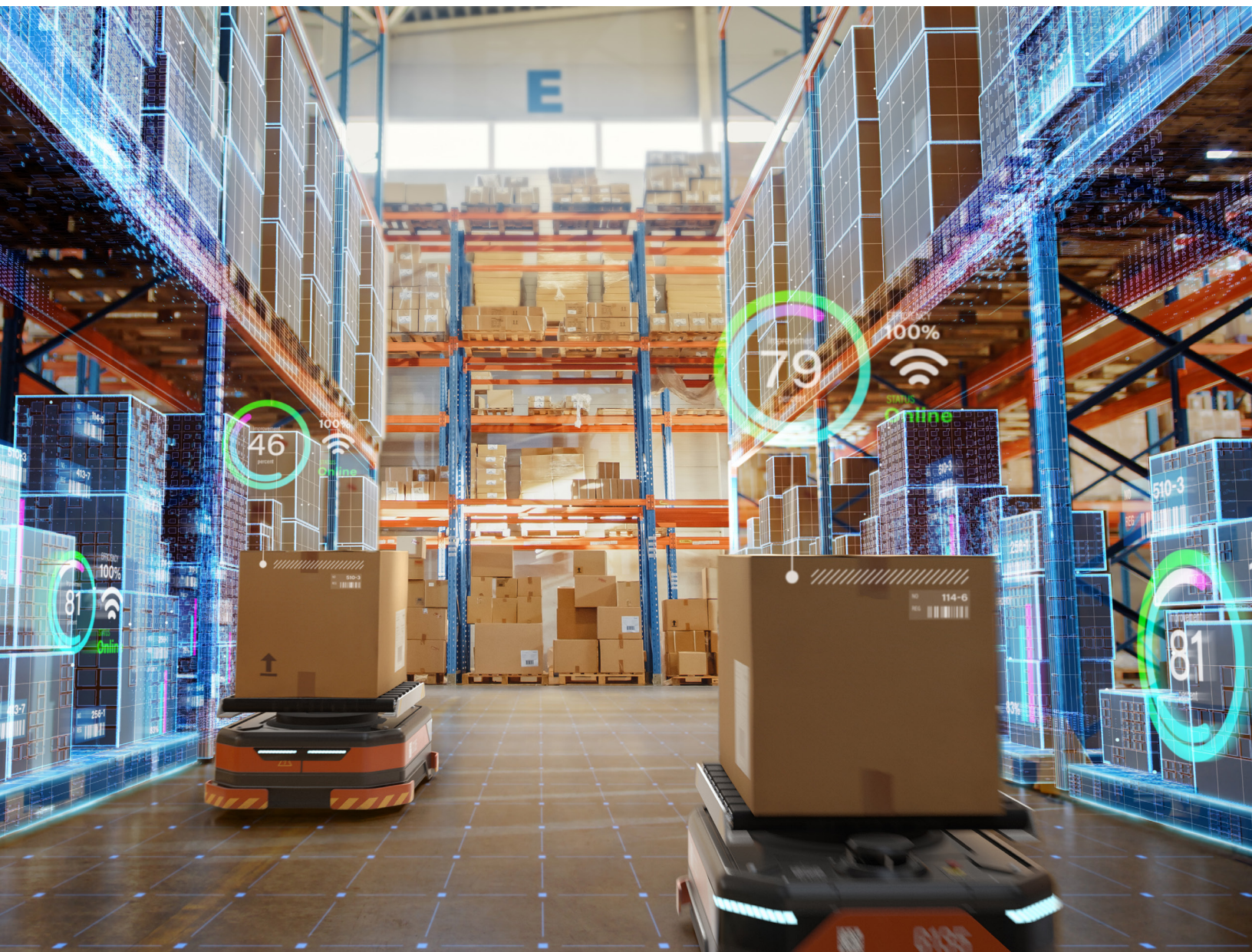




Yardi Matrix

National Industrial Report

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E-Commerce Growth Normalizes

- The e-commerce boom that began in the early days of the pandemic helped send demand for industrial real estate to never-before-seen heights, but as growth has normalized, a rebalancing has taken shape.
- E-commerce sales volume exploded in 2020, a shock that reshaped retail as we knew it. While growth cooled in subsequent quarters, the gains that were made during the pandemic are now entrenched. E-commerce sales volume has increased by 74% since the first quarter of 2021, although almost half of those gains were made in the initial spike in the second quarter of 2021. During the second quarter of this year, there were a total of \$277.6 billion of e-commerce sales, according to the Census Bureau, an increase of 2.1% over the first quarter and 7.5% year-over-year.
- While on the surface these numbers look robust, there are caveats. From 2010 (when the Census Bureau began providing the data series) to the first quarter of 2020, e-commerce sales grew at an average rate of 3.6% per quarter. Following the initial COVID-induced spike, that average is just 2.2%. It is also important to note that these numbers are not inflation adjusted, and increasing prices account for a portion of the growth. Still, e-commerce's share of core retail sales (which exclude motor vehicles, their parts and gasoline) has increased from 14.2% in the first quarter of 2020 to 18.4% today.
- Even as online sales growth has normalized, it continues to drive significant demand for industrial space because e-commerce operations require much more logistics space than traditional brick-and-mortar. Prologis estimates the additional space required for online sales to be three times higher, due to "piece picking, product variety, direct-to-consumer shipping and the need to process returns." While Amazon made waves when it paused and cancelled large fulfillment centers last year, traditional big-box retailers are still in the process of adding those spaces. Wal-Mart recently opened a 1.5 million-square-foot automated fulfillment center, the second of four such announced projects that will allow the company to reach 95% of the population with one- or two-day shipping.
- We expect e-commerce to remain a considerable driver of growth in the industrial sector for the foreseeable future. Both multimillion-square-foot facilities and small-scale infill centers for last-mile delivery will be a necessity for retailers to provide a quick and efficient omnichannel experience for customers. Many existing retailers will look to consolidate brick-and-mortar operations and streamline logistics networks, further fueling demand for space.

