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Amazon Pulls Back

- Amazon, the largest driver of the demand boom for logistics space, is ending its industrial expansion and in some places looking to shrink its footprint. The e-commerce giant reported its first loss in earnings since 2015—\$3.8 billion—during the first quarter of 2022 and admitted that the company overexpanded during the pandemic, when it expected higher sustained levels of e-commerce growth. Amazon's CFO, Brian Olsavsky, said on the earnings call that the company has "some excess capacity" in the network that it needs to grow into. A recent Bloomberg report revealed that the company plans to sublease at least 10 million square feet and may allow some leases to expire in order to further shrink its real estate footprint.
- Amazon has announced that it is indefinitely pausing development of a planned \$250 million distribution center in Round Rock, Texas, and canceling plans for a \$30 million facility in Churchill, Pa. Subleasing space and delaying projects before they break ground is not all Amazon is doing to pull back; it is also pressing the pause button on properties that are nearing completion. Amazon warehouses set to open this year in Alcoa, Tenn.; Davenport, Iowa; and San Antonio, Texas, have been delayed into next year or 2024.
- The Amazon pullback may offer some relief to tight industrial markets. Bloomberg's report suggested that the excess space the company will look to sublease is located in Southern California, New Jersey, New York and Atlanta. These markets have some of the lowest vacancy rates in the country. The Inland Empire has a vacancy rate of just 0.6%, Los Angeles 2.1%, Orange County 3.3%, New Jersey 2.9% and Atlanta 3.0%. Any space that Amazon offers for sublease will likely be absorbed very quickly.
- Amazon is not only dealing with slower than expected e-commerce sales growth but increasing competition from traditional retailers looking for a foothold in the e-commerce space. Walmart plans to leverage its thousands of stores—90% of the U.S. population lives within 10 miles of one—as fulfillment centers as part of its long-term plan to gain more share of the e-commerce market. Not only can the stores be used to fulfill online orders through delivery, they also offer quicker turnaround for consumers who wish to receive their purchases through in-store pickups. Walmart+, a competitor to Amazon Prime, offers free delivery on products from its stores, including groceries, and has promoted Walmart+ Weekend, a response to Amazon's Prime Day. Walmart also aims to compete with Amazon by building out its distribution networks and is currently developing four state-of-the-art fulfillment centers, with the first one set to open in Joliet, Ill., this year.

