



| FEATURED ARTICLE

# On Command AND In Demand

E-COMMERCE AND ITS INFLUENCE ON INDUSTRIAL





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By Steve Lewis  
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A few years ago, a joint study by Arthur Andersen's Real Estate and Hospitality Services Group and real estate consulting firm, Rosen Consulting Group, declared industrial real estate "a clear winner" when it came to the growth of e-commerce. In the ensuing years, that assessment has certainly been borne out. If anything, industrial real estate is even more of a winner today, with more good times anticipated.

Material Handling & Logistics magazine recently confirmed this, citing a survey by Cushman & Wakefield concluding that "the North American industrial real estate sector is undergoing a rapid transformation driven by e-commerce

growth, and is forecast to grow by double digits throughout 2019 and beyond."

"The growth of e-commerce has been a boon for industrial landlords and investors across the U.S., fueling demand for warehouse and logistics space that has reached an 18-year high," boasted *The Real Deal: Chicago Real Estate News*, and many areas of the country are seeing similar growth.

A survey of SIORs leaves no doubt about the e-commerce "boom" in industrial real estate, and that even through economic ups and downs, this lofty position is here to stay.

"Here in the Inland Empire of Southern California, we have proven to be one of

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the most significant logistic hubs in the country, if not the world," says Rick John, SIOR, executive vice president, DAUM Commercial Real Estate, Los Angeles. "We believe that e-commerce will be the main driver of how industrial buildings are designed, constructed, and finished moving forward."

"Milwaukee is known as a manufacturing hub—however, we have experienced most of our Class-A tenant velocity over the past couple of years with logistics-based operations that are benefiting from the robust eComm transition," adds Jeff Hoffman, SIOR, principal with The Boerke Company, Inc. in Milwaukee, Wis.

"It has changed our market," notes Daniel Jensen, SIOR, principal, industrial brokerage, with Kessinger Hunter in Kansas City, adding that he believes this upward trend will continue. "Kansas City is really becoming a logistics hub," he asserts. "We were always a secondary marketplace, and typically big users going to the Midwest would hit Chicago or Dallas because of their population bases. But from here, you can get to 85% of the continental U.S. in two days ground."

Mike Spears, SIOR, managing principal with Lee & Associates | Houston, says one of the big trends he's seen is that "what used to be considered a pretty large deal (100,000 – 250,000 square feet) is still good, but we see 500,000 and 1 million square feet deals are a lot more common. This has been driven primarily by e-commerce."

"I think these changes are here to stay," adds Jon Reno, SIOR, senior vice

president, managing director, Kidder Mathews, Los Angeles.

#### REQUIREMENTS MUCH DIFFERENT

Spears' comments about larger buildings points out just one of the many changes that e-commerce has brought to tenant requirements. "Buildings are getting taller," he says. "Once, 28-32 foot clear was ample; now it's too short." Tenants, he says, are now looking at 36, 38, or even 40 feet. "We've also seen tenants come in and do more design-build," he says. "I've seen more freezer cooler requirements the last two years than in the previous 18 combined."

The numbers don't lie. DAUM recently completed a study on industrial buildings 100,000 square feet and larger that were built from 1995 to present. The study found that among buildings that were completed between 1995-1999, 54.2% of the total square footage was comprised of buildings with a minimum clearance height below 30 feet, whereas in those completed from 2015-present, that percentage is now only 7.0% of the total square footage, with 93% of the total square footage in buildings with minimum clearance of 30 feet and above. The greatest increase found was the percentage of buildings completed with clearance heights between 30-39 feet, which went from 41.7% of the total from 1995-1999 to more than double that amount at 86.3% from 2015-present.

John notes that the most prevalent tenant requirements he sees are:

- Abundant trailer parking, excellent freeway access;

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- Dedicated truck lanes in and out of the building and projects;

- And clearance, flat floors, and heavy power to accommodate sophisticated material handling systems.

"Now they want state-of-the-art, fully electronic, intermodal that has incredible capacity," adds Spears, who agrees that because of e-commerce, tenants are looking for bigger, taller buildings. "We do insulated panels now because it makes sense," he adds, as well as a lot of "LEED-certified stuff" because more and more companies are concerned about their carbon footprints.

In Milwaukee, however, Hoffman says that most developers are focusing on 100,000-200,000

square foot single-load buildings with 210-260 foot depth, and extensive auto and trailer parking.

Reno sees low-coverage sites providing maneuverability for trucks/vans going in and out of the premises as gaining popularity. "These are truly the 'last touch' facilities where you have high through-put of product running 24 hours a day," he notes.

Speedy delivery to customers is not the only time-oriented requirement being requested by tenants, notes Hoffman. "The biggest change, and challenge, we have experienced is adapting to timing expectations for delivery," he shares. "It is quite problematic trying to manage

tenant expectations when the delivery of a building oftentimes appears to be at a glacial pace."

#### REPURPOSED BUILDINGS AN OPTION

SIORs note that newer, larger buildings don't represent the entire market. "While we believe the trend of continued construction of large, state-of-the-art distribution centers will continue to drive the bulk of new construction, we do see a growing opportunity in the more

**"The biggest change, and challenge, we have experienced is adapting to timing expectations for delivery...It is quite problematic trying to manage tenant expectations when the delivery of a building oftentimes appears to be at a glacial pace."**

densely populated urban core areas to reposition and repurpose a lot of functionally obsolete and under-utilized buildings and developments for last-mile delivery," says John. "Even with the development of drone and driverless delivery capabilities, it will still require e-commerce companies to have more locations that are physically closer to their end-customers in this shrinking delivery time race."

"More and more folks are trying to go to the Central Business District (CBD) and get older product, even if they have to go multi-story for last-mile delivery," adds Jensen.

"The conversation about multi-story warehouse development has been

playing out the past couple of years," says Reno. "Now it's proximity to all those families hitting 'Purchase Now' on their smartphones and computers expecting same-day delivery."

"Manufacturers are definitely taking note of the impact that speed to market and inventory optimization has on their bottom line," says Hoffman. "That is why I believe that even in an economic downturn, Class-A industrial product looks very favorable as an investment class as occupiers will have an even greater incentive to continue

the consolidation of their footprints to more efficient space."

Spears sees another reason for location preferences and conversions. "Foreign trade zone status has become all the more

important in Chicago," he says, noting a 4 million square foot underground parking garage retrofitted as a warehouse facility. "Those kinds of things did not happen before the e-commerce boom," he says. "You need proximity to the labor force."

#### SUCCEEDING IN NEW REALITY

So, with a dramatic trend clearly in place and new opportunities and challenges facing tenants, landlords, and investors, what are the keys to success for SIORs active in industrial real estate?

"You've got to control one of two things: product or users," says Jensen, who for over 30 years has been able to "serve

multiple masters” as a broker and developer.

Spears says it still requires attention to the fundamentals. However, he adds, “You do need to learn how to use new technologies.” Many such resources, he notes, used to be available only to the largest firms, but that has changed. “E-commerce is driving that,” he notes. New brokers, who have grown up in a technological world, may have an advantage here, he posits. “Now a lot of meetings are spent in the conference

room, ‘flying around’ on Google Earth,” says Spears.

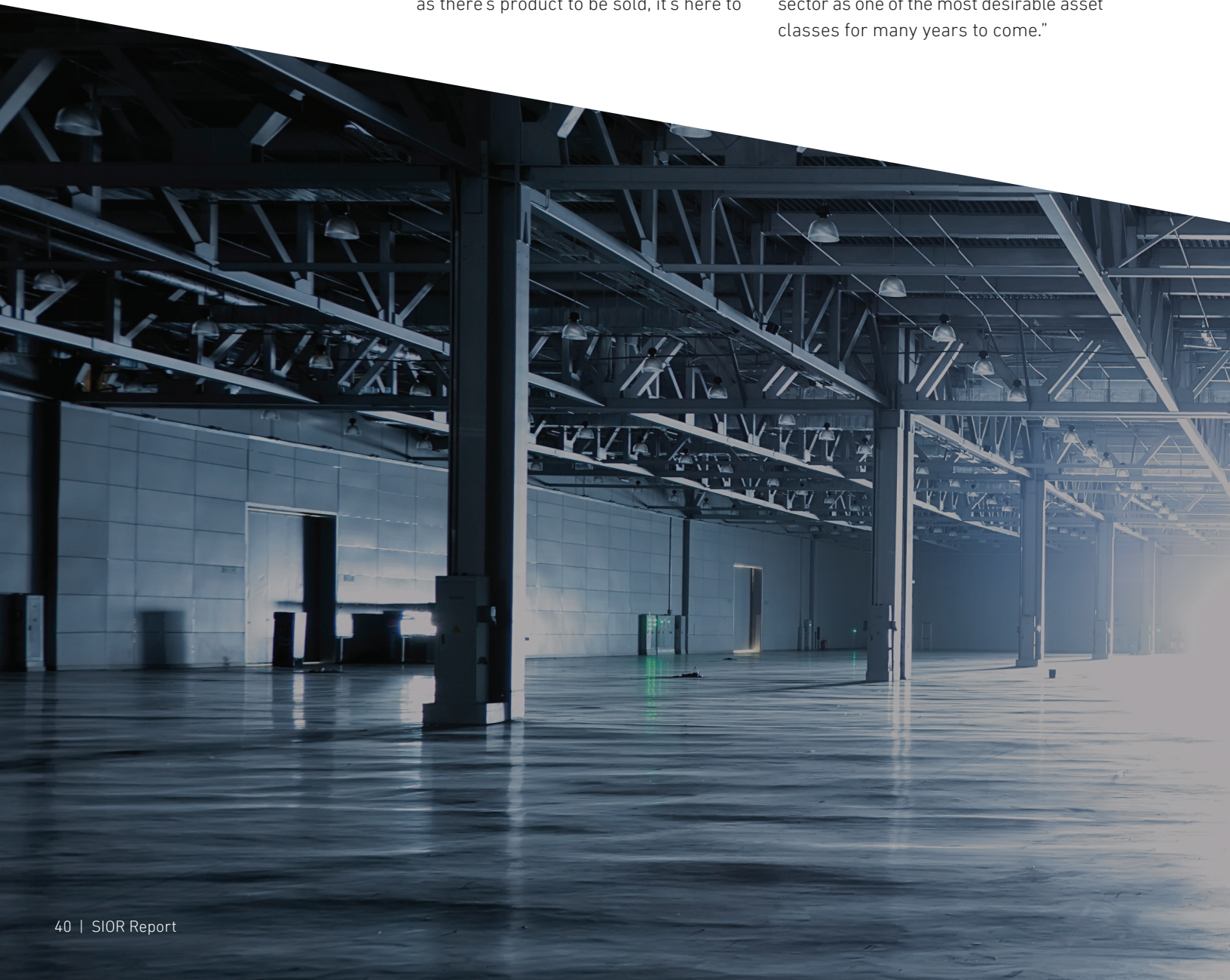
Speaking of “flying,” he adds that in terms of marketing, more people are using drones. “If you want to see where we’ll be technologically in five years, look at residential real estate today,” he suggests. “Digital fences are not yet mainstream in industrial use, but the e-commerce guys kind of invented it.”

SIORs are convinced that e-commerce will continue to dominate industrial real estate for years to come. “There’s no question about it,” adds Spears. “As long as there’s product to be sold, it’s here to

stay. It has already become the norm and will be more and more.”

“There’s no secret formula,” adds Reno. “It takes a lot of patience, studying up on the market, learning zoning ordinances and land use policies in your jurisdiction... and hard work. Be the hardest working broker in your market.”

John agrees. “We do believe that e-commerce has created a long-term, fundamental shift within the industrial real estate market that will transform its landscape for the next 20-30 years,” he says. “We still see the industrial property sector as one of the most desirable asset classes for many years to come.”





He leaves us, however, with this tantalizing hint: "Collaboration between brokers/users and developers has allowed our product to be home for a very successful e-commerce model," says John. "I know that a new twist to make e-commerce better is just around the corner, so stay tuned..." ♥



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