

E-commerce Boom Drives New Real Estate Push

By Tom Stabile

January 27, 2016

The same-day delivery model offered in some cities by e-commerce services like Amazon Prime Now is transforming the buying habits of American consumers – and could upend industrial sector real estate investing, a once-dowdy corner of the private funds market.

Expectations for ever-faster settling of online shopping transactions is driving the need for a patchwork of smaller, nimbler logistics, shipping, and warehouse centers in and around large population centers across the country.

That's a real estate category that barely exists today, says John Thomas, who started last month in a newly created role at CBRE Global Investors to oversee its North American logistics investment strategy and head the logistics business globally for the \$86 billion real estate asset manager.

“The logistics element is a new area with a lot of growth potential,” he says.

The growth prospects are rooted in the demands of younger consumers, Thomas says.

“[W]hen they're walking home from work, [they] want to get on their device, order a new pair of boots, and see it at their front door when they get home,” he says. “We're all excited with our two-day deliveries, but the future is immediate. The winners will be the guys who can figure out how to get it to your front door in an hour or two as cheaply as they can.”

Modern warehouses are part of larger real estate trends that already have responded to the increase in online commerce with giant shipping and storage hubs, inland ports, and robotics-controlled packaging centers. **But the last part of this high-technology supply chain may lie in smaller locations dotted around cities and suburbs, says Dwight Angelini, managing partner at Longpoint Realty Partners, a firm founded last summer by four former TA Realty executives who left that firm in July.**

“Getting product to the end consumer in an expeditious manner, the last mile of distribution, is where it's going,” he says.

Fundraising for industrial real estate properties overall has already been on the rise, according to data from Preqin. The segment has steadily increased aggregate capital raised in funds that have closed from \$1.4 billion in 2008 to \$8 billion last year.

Industrial nevertheless remains relatively uncrowded for both investors and fund managers, according to a new survey from the Pension Real Estate Association. It found that less than half of fund managers plan to invest in industrial properties this year, and that only 31% of institutional investors plan to put money in the segment this year, coming up last behind the larger and better known office, multi-family residential, and retail sectors.

Industrial's smaller footprint compared to other sectors partly explains why some investors say they are "under-allocated", says Richard Kleinman, senior v.p. at LaSalle Investment Management, a \$56.4 billion real estate manager.

"Industrial has characteristics that are appealing to investors, such as strong performance, a high percentage of income in cash flow, and a low [capital expenditure rate]," he says. "But the properties tend to be lower in value."

Online sales infrastructure may change the sector's complexion, Kleinman says.

"E-commerce is definitely fueling more intensive demand for the warehouse segment," he says.

Indeed, finding locations for last-leg distribution centers is going to lead new warehouse real estate activity, Thomas says.

"It's just starting right now," he says. "An old, broken retail center could become one of these buildings, or an old 80,000-square-foot grocery store. You could reconfigure those, or you could find an old brownfield site, or two buildings next to each other – they'll all be a little different."

Location may end up being more important than site or building features, Thomas says.

"It might be nicer to have more doors or extra bays, but if it's such a good location, you may live with what you get and just change the use," he says.

Such variety could mean industrial properties end up in targeted strategies or become elements of broader core, value-add, or opportunistic real estate funds, Thomas says.

Fund managers across the market are gearing up for the opportunities. Last fall, Blumberg Investment Partners announced a joint venture with SunCap Property Group and China-based Ping An Insurance Group to buy an existing \$600 million portfolio of logistics properties in core real estate markets and invest \$400 million more in future developments.

And Longpoint expects up to 40% of its investments to tap the infill warehouse opportunity, Angelini says. The groundwork is already beginning, he says. "Boston is not historically a warehouse market, but we're now seeing white Amazon vans driving around," he says.

Longpoint's goal is to buy up smaller, locally owned distribution centers in the \$5 million to \$15 million range, improve the properties, and bundle them together to sell to larger funds and investors in \$50 million or \$100 million chunks, Angelini says.

Longpoint also sees a big opportunity in related retail strategy changes, with big-box outlets breaking up into smaller storefronts paired with nearby warehouses that hold inventory at much lower space costs, Angelini says, noting that retailers such as Staples and Walmart are already mapping out such strategies. "That's going to be the future of local retail," he says.

Industrial real estate investing is also becoming a big theme overseas, but not at the e-commerce level, says Thomas McDonald, co-founder of Jaguar Growth Partners, which is investing in Latin American real estate. There are big opportunities to build out distribution infrastructure in countries such as Mexico, Brazil, Peru, and Colombia, where very few supply logistics centers and warehouse hubs exist today to serve the consumer needs of a growing middle class.

"The more traditional activity of distribution of consumer goods is still in a real growth mode in these countries, especially in the Andean region," he says. "But e-commerce is still in very early stages."