

# Golden intersection of e-commerce and commercial real estate

 By [Rael Levitt](#)

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The growth in e-commerce and resilience of the logistics industry has paved the way for distribution centres and warehouses to become the new 'hot' property class.



Rael Levitt

As more consumers continue to opt to buy goods online, as opposed to venturing out to retail store locations and shopping malls, amid the ongoing Covid-19 pandemic, it is resulting in a subsequent impact on industrial real estate, specifically the part of the market focused on warehousing and logistics.

To be clear, e-commerce was here to stay long before Covid-19 entered our collective vocabulary, yet the ongoing intersection of e-commerce and logistics, against the backdrop of industrial real estate activity has been accelerated by the global pandemic. This has essentially accelerated the retail evolution, as e-commerce penetration has grown in leaps and bounds since March 2020.



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## The need for fulfilment space

E-commerce requires more than three times the logistics space of brick-and-mortar stores, which supports the need for additional e-fulfilment space should e-commerce penetration maintain its current pace, as more people stay at home; and retailers that have recently announced store closures and size reductions account for a small fraction of logistics demand.

There are a few factors as to why e-commerce requires more than three times the logistics space of traditional brick-and-mortar stores.

Firstly, e-commerce is a space-intensive sales channel. Retailers generally offer a much wider product variety through their online platform, compared to in-store stock, and need to accommodate greater volatility in purchase activity, both of which drive the need to hold more inventory.

Online delivery or what is known “e-fulfilment” also incorporates individual product picking and space-intensive last-mile delivery operations. Finally, many of these spaces need to accommodate product returns and the accompanying reverse logistics (where goods are returned). In some cases, the need to accelerate the movement of goods require warehouses that are larger in size and height.



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Even though warehouses and distribution centres are getting bigger and bigger, since e-commerce logistics space requirements are more than three times the size of traditional retail stores this ratio should decline as e-commerce fuelled operations became more efficient and productive. Eventually "just-in-time" delivery will decrease the need for massive warehouses.

The greater need for speedier delivery of goods is an aspect of supply chain management that will result in more efficient space utilisation – and thus smaller space requirements. With constantly growing consumer demand for same-day and next-day delivery, just-in-time delivery will become a growing inventory management strategy that will facilitate speedier order fulfilment with less goods being held in storage.

## Volatile swing in demand and supply

One of the other material issues that property owners need to consider is the volatile swing in demand and supply and thus many are seeking more flexible warehousing options. Short-term leases grew dramatically in the months after the coronavirus outbreak. In volatile periods, companies do not want long-term property commitments and want flexible leases. This trend will grow.

Even before the pandemic, we were in a period of historically low supply of logistics real estate. The need to accommodate rapid growth in e-fulfilment within existing distribution networks tailored for retail store distribution drove pent-up demand for properties, specifically in properties close to end consumers.

And when the yet-to-be determined post-pandemic era is here, the push for resilient supply chains is expected to lift the demand from e-commerce and brick-and-mortar retail customers alike, as e-commerce space needs allow companies to grow without costly retail footprints.

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### Delivery economy

There is no doubt that online retail has played a huge role in keeping the economy from suffering even greater damage during the pandemic. Stay-at-home orders and consumer concerns about exposure to the virus led people to order goods online and have them delivered to their homes with increased frequency. The “delivery economy” which e-commerce business allows has change the face of real estate.

Both property users and property investors now recognise the key role that logistics property and facilities play in fast-growing segments like e-commerce and on-line retail. Although that role was highlighted during the pandemic, it's been highlighted in the acceleration of a years-long shift toward online commerce.

Customers who had been planning to slowly reconfigure their supply chains over a long period have needed to re-assess distribution networks in the near-term to accommodate consumer demand.

While modalities are changing and service levels are increasing, the foundation of demand for most logistics real estate users has not changed: many items such as food and beverage, consumer products and medical supplies that flow through supply chains are tied to basic daily needs.

*The inaugural [E-commerce Day](#) launches on 10 March 2021, with a [special editorial focus on Bizcommunity](#) for the week. E-commerce Day is an initiative by [ecommerce.co.za](#).*

### ABOUT RAELELEVITT

Rael Levitt is CEO of Inospace. Levitt is a double Master's degree graduate from the National University of Singapore and the UCLA Anderson School of Business with over 25 years of experience in all facets of the real estate sector, including founding several leading businesses.

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