Black Creek Group

Market Insights

Same-Day Delivery Demands Local Warehouse Space

Long-gone are the days of 3-5-day shipping standards. Today, consumers are demanding faster and more frequent delivery of everything from corn flakes to kayaks, as same-day delivery is on track to become the norm for most online purchases by 2023.[1] To service consumers' *see now*, *buy now*, *receive now* expectation are last mile warehouses — small-to-mid-size industrial buildings (typically less than 150,000 square feet) located near densely populated areas. Last mile warehouses allow retailers to deliver groceries, prescriptions, office supplies and even clothing same day, making this warehouse type an increasingly more critical component of the supply chain as e-commerce continues to explode.

THE E-COMMERCE REVOLUTION, DRIVING UNPRECEDENTED DEMAND FOR LAST MILE WAREHOUSES

The growth of e-commerce has proven an outsized driver for industrial warehouse space, including last mile properties. While e-commerce is still relatively early in its adoption — online sales contributing to just over 11% of the $5.4 trillion in total U.S. retail sales for the 12-months ending September 30, 2019 — it has continued to grow at a robust rate of nearly 17% year-over-year.[2] The strong growth of e-commerce sales is fueling demand for additional warehouse space as every $1 billion in e-commerce sales requires approximately 1.25 million square feet of warehouse space.[3]

E-COMMERCE CONTINUES TO GROW AT A RAPID RATE

E-commerce only makes up 11% of total retail sales and has grown at a rate of nearly 17% year-over-year since 2009[2]

E-COMMERCE RETAIL SALES GROWTH

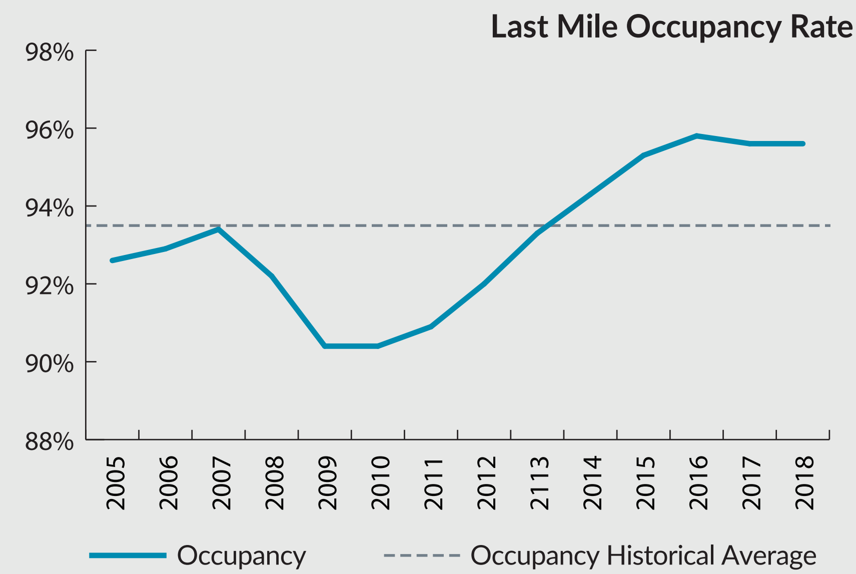
The advent of same-day delivery services like Amazon Prime Now, Instacart and Shipt have transformed customer expectations for more rapid delivery times. Retailers have reconfigured their supply chains, which include additional last mile warehouses, to accommodate omni-channel strategies that center on the need for reliability and speed — resulting in a need to carry higher inventories. The ratio of inventory to sales has increased from a low of 1.34 in 2012 to nearly 1.5 in the first half of 2019,[4] and this shift of carrying higher inventories over the last seven years has also contributed to strong industrial demand.

[1]Source: Deloitte, Urban Fulfillment Centers, 2019.
[2]Sources: U.S. Census Bureau; St. Louis FRED; Costar Portfolio Strategy, Q3 2019.
[3]Source: CBRE Research, Q4 2017.
[4]Source: U.S. Census Bureau, Q2 2019, Retailers: Inventories to Sales Ratio, retrieved from FRED, Federal Reserve Bank of St. Louis.

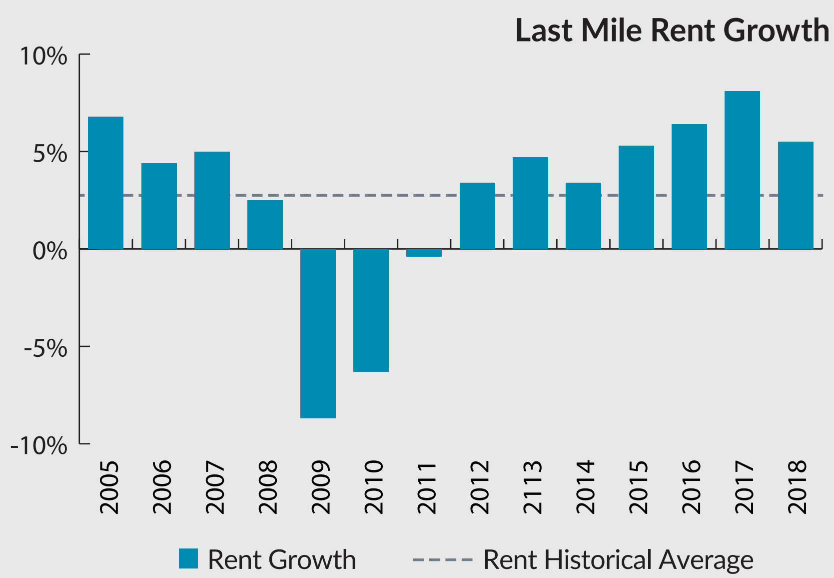
LAST MILE WAREHOUSES EXPERIENCING HISTORICALLY HIGH OCCUPANCY AND RENTAL GROWTH

The occupancy rate for last mile industrial properties, nationally, has hovered near a historical high of 96% since 2016[5] and is poised to continue as an additional 850 million square feet of industrial space will be needed from 2019 to 2023 due to e-commerce.[6] Meanwhile, remarkably high occupancies have driven sustained, above-trend rent growth. Last mile rents have increased 6.3% annually on average from 2015 to 2018, well above the historical average of 2.6% since 2006, demonstrating the highest rent growth of any of the four main property sectors (industrial, retail, office and multifamily).[5]

HISTORICALLY HIGH OCCUPANCY AND RENT GROWTH RATES



OCCUPANCY RATES NEAR **96%** SINCE 2016[5]



RENTS INCREASED BY **6.3%** SINCE 2015[5]

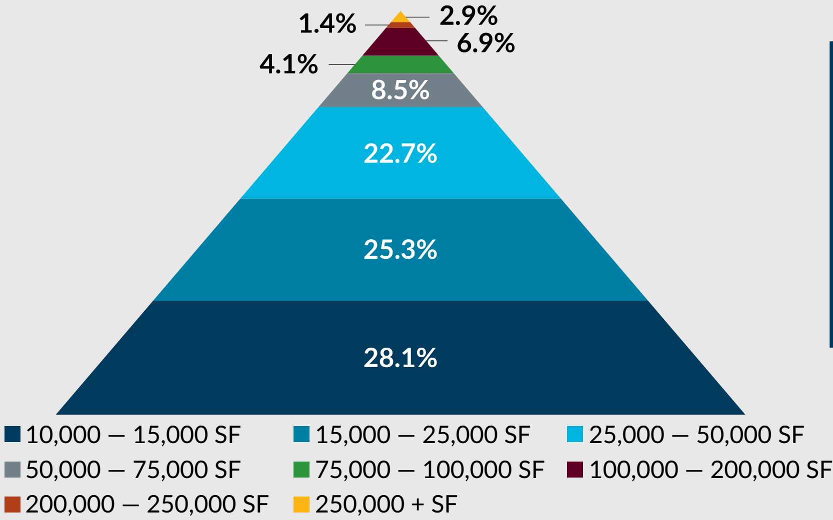
[5]Source: CoStar Portfolio Strategy, Q2 2019.
[6]Source: Deloitte, The Future of the Industrial Real Estate Market, May 2019.

TENANTS FAVORING SMALLER WAREHOUSES

Tenant leasing momentum has also favored the smaller footprint of last mile industrial buildings. Since 2010, over two-thirds of the more than 150,000 industrial leases signed nationally were for less than 50,000 square feet, underscoring the significant demand for smaller industrial assets this cycle.[5]

Share of Industrial Leasing Activity Since 2010[5]

By Size of Lease



MORE THAN 75% OF LEASES SIGNED ARE FOR 50,000 SF OR LESS[5]

The evolution of American's shopping habits that mandate faster delivery of more products is sustaining demand for last mile industrial buildings. At the same time, challenges in supplying this segment of the market suggest continued strong performance of these assets. Additionally, the flexibility of last-mile industrial buildings that cater to both businesses that serve the local economy in their respective markets, as well as larger e-commerce related firms, provides insulating characteristics that may mitigate broader volatility in demand over the long term.

ACCESSING LAST MILE REAL ESTATE

Until recently, high-quality last mile warehouses were typically only available to institutional investors. Now, individual investors can access last mile warehouses and other commercial real estate through pooled investment vehicles. Net Asset Value Real Estate Investment Trusts (NAV REITs) own and operate income-producing real estate, which can include last mile warehouses.[7] Investing in a NAV REIT may provide individuals with the benefits of owning institutional-quality commercial real estate — historically higher income returns than equities or fixed income, diversification benefits and strong overall risk-adjusted returns[8] — without having to actively own or manage the properties.

Black Creek Group, LLC (Black Creek Group) is an experienced real estate investment management and development firm that has bought or built over $20 billion of investments over its more than 25-year history.[9] The firm manages diverse investment offerings across the spectrum of commercial real estate — including office, industrial, retail and multifamily providing a range of investment solutions for both institutional and wealth management channels. Black Creek Group has nine offices across North America with more than 300 professionals.

To learn more about private real estate, visit BlackCreekGroup.com.

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[7]An investment in a NAV REIT is not a direct investment in commercial real estate but an investment in a NAV REIT that owns commercial real estate. The payment of distributions by a NAV REIT is uncertain and cannot be guaranteed.
[8]Sources: Bloomberg; NCREIF Open-End Diversified Core (ODCE) Index; NAREIT. 20 years ending December 31, 2018. Commercial real estate is represented by the NCREIF ODCE Index, an equal weighted, time weighted index representing a blended portfolio of institutional-quality real estate reported gross of management and advisory fees. Although the price of a NAV REIT's shares is subject to less volatility, NAV REIT shares may be significantly less liquid than publicly traded securities or bonds and are not immune to downward fluctuations. There is generally no public trading market for the shares of NAV REITs so redemption of shares by the NAV REIT will likely be the only way to dispose of such shares. In contrast, bonds and equities provide ready liquidity and are easily traded. In addition, there are many other material differences among these asset classes, including differences in fees and expenses, liquidity, safety and tax features.
[9]As of September 30, 2019.

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