



Industrial Property: ugly duckling no more

Not long ago, the industrial property market was considered the “ugly duckling” of the real estate industry. In the last couple of years, however, industrial warehouses and distribution centers, have emerged as the most desirable assets within commercial property, generating higher rental growth and returns than other main commercial sectors – all thanks to the rise of e-commerce.

Written by:
Bo Glowacz (UK)

The perception of industrial real estate, once synonymous with noisy trucks and dirty yards, is now changing as automation, robotics, and other technological advances further reshape the sector.

The rise and rise of e-commerce

Online retail growth shows no signs of slowing due to several factors, namely convenience, price, and free delivery. In the United Kingdom, which has been at the forefront of online shopping, e-commerce will represent 20 percent of all retail sales by 2020, an equivalent of almost US\$23 billion. This year alone, more than half of online sales were made on a smartphone, suggesting that mobile apps, including social media, are having growing impact on retail transactions.

Retailers, therefore, will be investing not only in websites and apps but also in e-fulfillment centers and logistics facilities holding inventory, rather than in physical shops. As an estimated US\$1 billion of online sales translates into 100 million square feet of industrial space, retailers are likely to seek even more warehousing space going forward.

Fewer shops, more urban logistics?

Changing shopping habits and rapid population growth in major conurbations is fueling demand for logistics space. However, having lost swathes of industrial land to other uses in the past few decades, warehousing supply levels are struggling to meet the demand. Will the solution lie in the retail sector? Redundant retail space could provide that opportunity,

given that the retail market is currently facing large-scale store closures as costs—including business rates and wages—rise while sales in physical stores continue to fall. By its very nature, the retail sector is well positioned for servicing customers whereas the logistics sector is not.

Urban logistics close to the customer

Logistics space supporting last mile delivery is ever more crucial as customers expect shipments within two days, with some retailers even guaranteeing one-hour delivery. Last mile logistics are often the most costly and inefficient and, therefore, online retailers will look for new solutions to optimize them. This will result in ever more complex supply chains—something we’ve already witnessed as the customer enjoys a more seamless omni-channel experience. Urban warehouses are likely to be more compact and efficient with limited inventories that can be modified using predictive analytics and supplemented with 3D printing.

Intensification of land use

The limited industrial space in urban areas will likely lead to further intensification of land use. This includes utilizing underground facilities such as car parks, developing more multi-story warehouses as well as mixed use schemes with a light industrial and residential component or so called “beds and sheds.” Industrial tenants are also likely to move to a shared service model and look to consolidate their deliveries alongside other firms, similar to how third-party logistics consolidate packages today.

Automation and robotics

New technology is already having a profound impact on industrial real estate but the potential disruption cannot be underestimated. Automation is fast changing the way industrial facilities are designed and utilized, as seen in fully automated warehouses and fulfillment centers. This includes the use of robotics to move goods between trucks, manage inventory, and pick items off shelves without the need for human labor. As warehouses become more sophisticated, developers will increasingly need to deliver a product that is designed to support advanced technology.

While the potential of automation, robotics, augmented reality, and the Internet of Things are immense, the adoption of such technologies might take time and will not be universal. Those firms that invest in and adopt technology quicker will have the competitive advantage. We have already seen how early adoption of leading-edge technologies is driving operations of some of the largest online retailers. Industrial real estate will be no different as the greater use of data and analytics significantly boosts efficiency, increases business intelligence, and, ultimately, improves the customer experience.