

# Industrial Gains Strengthened from Manufacturing Adaptability and Consumer Reliance on E-commerce

By Elise D. Puritz, CREW Network Industry Research Committee

More than three months since COVID-19 triggered factory closures across China, consumer patterns, mobility and purchasing power are dramatically different than in Q4 2019. While U.S. GDP shrank 4.8% in Q1 2020, demand for last-mile industrial products remains strong.

## Last-Mile Vacancies Remain Low as COVID Redefines Just-In-Time Shipping Needs

The pandemic is not creating commercial real estate trends but is a driving factor in trend acceleration, according to Stephen Batcheller, regional partner and head of Transwestern Development Company–Logistics Group’s West Coast development efforts. Brick and mortar retail, an already declining market, is faced with the additional challenge of mandated store closures and weary homebound consumers, which is fueling the upward trajectory for e-commerce.

According to Batcheller, supply challenges will be one of the most significant disruptors to last-mile capacity. Faced with increased demand for product, while also encountering challenges of supply constraints, shipping delays, and in some cases, striking workers, large online retailers are struggling to keep up with demand. In Amazon’s Q1 earnings call, the e-commerce giant reported a halt to its 1-day shipping program and a decrease in marketing spending due to product shortage. However, Amazon’s move to warehouse inventory closer to consumers and its investment in its logistics network is helping maximize capacity.

“With COVID-19, the definition of just-in-time shipping is evolving,” said Batcheller, who reported that Transwestern’s major e-commerce vendors are desperately seeking space. “We anticipate that global supply chain disruptions may impact shipping needs to allow more product on shelves. We are seeing an increased demand for industrial, especially last-mile projects.”

## While Manufacturers and Food Production Companies Adjust, Demand Remains Steady

As noted by CBRE, while the short-term outlook for industrial real estate is to the downside, the long-term effects of COVID-19 may boost demand in three ways:

1. increased inventory for consumer products in high demand;
2. re-shoring of critical manufacturing components that can turn to automation for local efficiency; and
3. an increased demand for e-commerce purchases as many new online consumers have entered the marketplace in recent weeks.

According to Prologis’ IBI, the company’s quarterly survey of customer

sentiment, logistics market vacancy remained near its historic low during Q1 2020 at 4.7%. Factors including leasing activity in e-commerce, food and beverage and essential consumer products industries, as well as 3PL short-term import storage needs, are credited with accelerating the leasing market.

However, on the manufacturing side, challenges ensue. According to a recent survey of the National Association of Manufacturers (NAM), nearly 80 percent of respondents reported anticipated financial impact and over 50 percent projected a change in operations due to COVID-19.

The ability to revitalize and retool is bringing some resiliency to the manufacturing sector and supporting strong performance despite unprecedented circumstances.

Preetica Kumar, a Chicago-based associate business development manager with the full-service engineering, architecture, construction, environmental and consulting solutions firm Burns & McDonnell, says her organization’s food and beverage industry clients are “experiencing the opposite of a slowdown.”

“Despite the unpredictability and sudden fluctuations in demand for food and beverage products, we have seen our clients step up to the plate, literally and figuratively, by being extremely nimble on behalf of their consumers.”

She described production pivoting measures, such as spirits companies transitioning to produce hand sanitizer, as one of the methods contributing to the sector’s performance. Other clients have expanded or altered production to support emerging market trends including plant-based meat substitutes.

Despite present COVID-19 associated challenges, the industrial market outlook remains strong with an increased focus on reserve inventory, higher demand for local specialized manufacturing and heavy consumption of food and at-home convenient items.

“As the U.S. starts to re-integrate back into the workforce, the industrial world has the advantage of having remained open all the while,” says Jackie Orcutt, a senior vice president in CBRE’s Industrial & Logistics practice group and a CREW Network board of directors member. “Warehousing and e-commerce distribution have been virtually resilient to the effects of COVID-19, which indicates the industrial world should be back to pre-pandemic ‘normal’ by early 2021.”

*Elise D. Puritz is director of business development, MHP Structural Engineers.*