

HOW THE INDUSTRIAL SECTOR HAS BECOME THE DARLING OF COMMERCIAL REAL ESTATE

The pandemic has been detrimental to so many businesses around the world. Luckily for Dalfen Industrial, their "last mile" industrial real estate niche has been considered by many to be almost pandemic-proof. While retail stores are closing right and left, e-commerce is booming. And to fulfill those orders, retailers need more industrial properties than ever before.



What is Last Mile?

"Last mile" real estate refers to the last step in the supply chain where the product is shipped from the fulfillment center to the customer. The "Amazon effect" has led customers to desire (and often expect) fast, free delivery. While the former model was large warehouses that would service an entire region, customers' delivery expectations resulted in a need for product to be closer to the customer. Last mile is generally considered to be 3-10 miles to the customer. Companies are increasingly using multiple small fulfillment centers around a single metropolitan area so they can deliver more orders on a single, shorter route and pass transit savings along to their consumers.

Sean Dalfen, President and Chief Investment Officer at Dalfen Industrial notes that "Since transportation accounts for 45% to 70% of the costs in a supply chain, proximity is the largest deciding factor from an investment standpoint. Even manufacturers deliver directly to consumers today, and they never did this before. They're skipping the middle man. If you want to survive, they have to be close to the consumer because the shipping costs alone will outweigh any profit that they are going to make. If you aren't close to the customer, you simply aren't profiting in e-commerce"

Dalfen Industrial has been a major player in last mile industrial long before the new moniker. (Industrial properties within population centers used to be referred to as infill properties). With the continual shift to e-commerce and last mile industrial demand rising exponentially, Dalfen's focused strategy has paid off with more than 20 million square feet of properties in the major US markets.

"We're one of the largest buyers of industrial in the country. All we do is last mile We conduct business nationwide with a particular emphasis on high-growth markets," said Dalfen – focusing on acquiring and building high-quality assets in major metropolitan areas including Atlanta, Orlando, South Florida, Dallas, Denver, Las Vegas, Charlotte and Phoenix, as well as high-density mature markets like Chicago and gateway markets in the northeast.

"Each market is unique and has different variables to consider, from congested roads and density of population to demographic factors and the availability of quality infill space," Dalfen said. "Our top-down and bottom-up approach has allowed us to select what we believe are the optimal last-mile locations and the highest quality properties in the markets where we operate."

E-commerce Growth Explodes (Even More) with Pandemic

E-commerce has grown year over year, shifting business models and supply chain best practices. However, COVID-19 sped up the pace of online sales to levels retailers didn't expect for another two to five years. JLL reports that "35 percent of its industrial leasing activity was tied to e-commerce operations before the outbreak. It now expects that percentage to go up as much as 50 percent by the end of the year as retailers expand capacity to meet demand."¹

While the pandemic led a new demographic of people to adopt e-commerce due to necessity, experts feel that the buying behavior will be sustained long after COVID.

"E-commerce growth remains strong even as COVID-19 pandemic restrictions are being eased, suggesting a possible behavioral shift with consumers young and old around the world as they embrace the convenience of online shopping," said Debbie Guerra, executive VP at ACI Worldwide, a payment systems company that recently analyzed millions of e-commerce transactions from global merchants.²

Fulfilling the Needs of E-Commerce Tenants

No one doubted that the internet, and then the shockwaves caused by the "Amazon effect," would vastly shift the way people did business. However, the extent to which demand for industrial properties has grown is larger than expected. According to JLL, retailers will need an additional one billion square feet of industrial real estate by 2025 to support the growth of online sales.¹

And though industrial facilities are not new, the needs of them have changed as consumers have shifted to e-commerce. While traditional distribution centers focused on pallets of products, e-commerce fulfillment centers must cater to a pick and pack environment for individual orders. E-commerce facilities have to be able to house three or more times the number of employees as a traditional distribution center in the same square footage. The optimal e-commerce facility has higher ceilings for modern vertical racking systems and robotics, more land for parking, and space to accommodate returns. However, due to the scarcity of land and few existing properties with these specifications in many infill markets, many tenants must make existing properties suffice. Few get lucky enough to lease the newly constructed facilities that are being built wherever space can be found but the demand outpaces supply in most markets.

While acquiring buildings will always be part of the company's strategy, Dalfen is also an active player in development of new assets.



"We're building to own top-quality product where demand is exceedingly strong and we are unable to buy existing assets for anywhere close to replacement cost," said Dalfen. "Depreciation isn't just a tax issue, it's a real thing. Your property gets less valuable with age, so why pay way more than replacement cost for an older asset, when we can build to perfection, and in turn attract the best tenants and demand higher rent?"

Infill land opportunities are scarce, so commercial real estate investors must be agile enough to move quickly when an opportunity presents itself. And since the Dalfen team has an intimate understanding of the specifications tenants demand in each of its markets, they have been extremely successful at building properties speculatively and rapidly leasing them thereafter.

Dalfen Industrial is truly at the forefront of the last mile industrial sector, providing a best-in-class, vertically integrated platform. From acquisition and construction

through asset and property management, the Dalfen team is in the ideal position to cater to the needs of the modern e-commerce tenant and capitalize on the growth of the market.

Recent reports show that analysts expect e-commerce demand will reach roughly 333 million square feet annually – triple the previous demand forecast. Last mile industrial has a long runway, and Dalfen Industrial is perfectly positioned to provide for the growing e-commerce needs.

For help with your last mile industrial needs, contact us at info@dalfen.com

Sources

- ¹ "Industrial Real Estate Demand to Grow to 1 Billion Square Feet by 2025." JLL, 9 July 2020, <https://www.us.jll.com/en/newsroom/industrial-real-estate-demand-to-grow-to-1b-sf-by-2025/>.
- ² Wilson, Marianne. "U.S. e-Commerce Sales up 25% in June." *Chain Store Age*, 14 July 2020, <https://chainstoreage.com/us-e-commerce-sales-25-june/>.
- ³ "U.S. MarketFlash: Annual Industrial Demand to Hit 333 Million Square Feet by 2022." CBRE, 25 June 2020, <https://www.cbre.us/research-and-reports/US-MarketFlash-Annual-Industrial-Demand-to-Hit-333-Million-Sq-Ft-by-2022/>.