GLOBAL HEALTH CRISIS

Marcus & Millichap

SPECIAL REPORT INDUSTRIAL APRIL 2020

Warehouse and Distribution Centers Partially Insulated From Health Crisis; Investors to Consider Industrial as Diversification Option

Most industrial properties are impacted less than other property types. As the national stay-at-home orders have shifted much of the economy into a delivery model, the negative implications are broadly felt, including in the commercial real estate arena. Offices, restaurants, hotels and most other retailers have been forced to close their doors to avoid overwhelming the nation's healthcare system. Apartment operations could suffer if employment fails to rebound quickly. Warehouse and distribution centers, however, are in a relatively favorable position as much-needed supplies are funneled through a smaller supply chain. As a result, these properties are expected to weather the health crisis better than most others regardless of the length of the downturn.

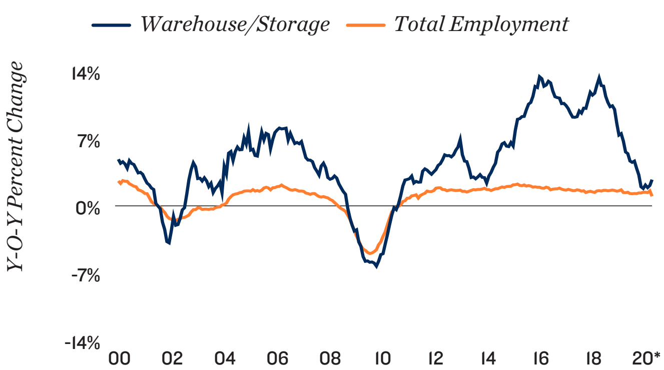
HIGHLIGHTS

- Warehouse and distribution real estate supporting essential businesses and online retailers better positioned to weather pandemic.
- Following the health crisis, industrial properties expected to become a larger part of investors' diversified portfolios.
- Americans that were previously slow to embrace e-commerce shopping will leverage these services after the economy begins to reopen to maintain social distancing.

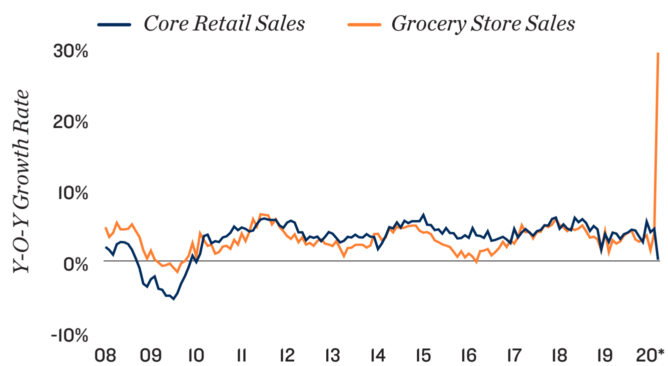
Warehouse and distribution critical to delivery networks. Firms occupying warehouse space that caters to essential businesses, such as grocers, and online retailers are less impacted by the economic shutdown. Non-store retail sales soared nearly 10 percent year over year in March as residents leveraged deliveries to purchase essentials and set up home offices. Amazon, which supports both needs, has significantly benefited from the surge in sales. Following an initial announcement of 100,000 new positions, mostly for fulfillment and delivery, the company revealed plans for an additional 75,000 jobs. Walmart has already added 150,000 employees across its supply chain and will hire 50,000 more in the coming weeks to meet demand at fulfillment and distribution centers. Both firms are weeks ahead of schedule onboarding new staff after 26 million Americans filed for unemployment benefits over five weeks.

Industrial assets will be attractive to diversification-seeking capital. Investors were largely caught off guard in the early days of the pandemic as the structural soundness of the economy failed to warrant significant diversification away from equity markets or specific investment real estate. As a result, some well-capitalized buyers may consider shifting into more in-demand industrial assets, such as warehouses and distribution centers. Warehouse and distribution centers that support online retail were favored before the pandemic, a trend that is anticipated to continue when the markets begin to loosen. As more Americans take advantage of delivery after the health crisis is over, demand for last-mile distribution will also increase, generating opportunities for investors.

Warehouse and Storage Job Growth Outpacing Overall Employment Gains



Grocers See Surge in Sales After Restaurants Forced to Close



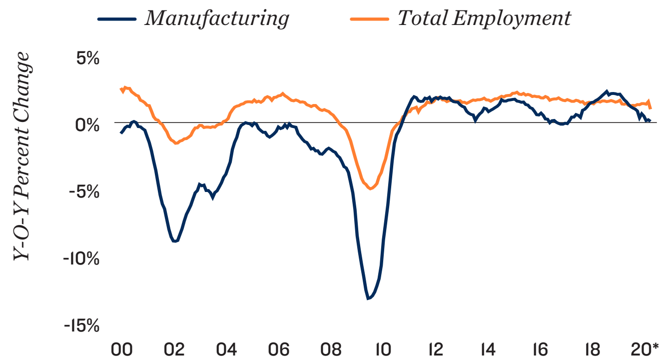
* Through March

Operators Barred From Processing Tenant Evictions in Many Locations; Investors Eye Shutdown-Resistant Industrial Properties

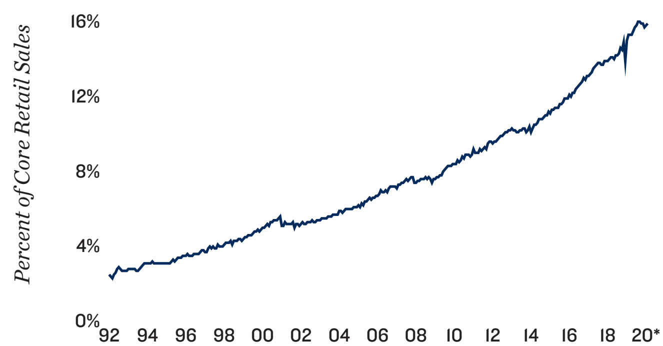
Evictions banned in several states; reopening on horizon. Approximately 30 percent of states have a moratorium on evictions due to the health crisis, leaving owners in a precarious position when dealing with tenants that are behind in rent obligations. However, some lenders are working with operators to offer flexibility and the CARES Act should provide some tenants with needed reserves. Shuttered industrial operations may also be among the first to emerge from the shutdown. Reopening U.S. manufacturing plants has already been announced. Boeing, for example, is bringing 27,000 workers back using staggered shifts and social distancing protocols. Farm equipment maker Doosan Bobcat, North Dakota's largest manufacturer, is returning 2,200 workers to three facilities. Other manufacturers will follow as testing capabilities and access to personal protection equipment ramp up. As manufacturing gains momentum, the warehouses that support these facilities will need to reopen as well.

Long-term boost anticipated for online retailing. Americans slow to adopt online shopping habits are altering their behavior in the wake of the shutdown. Amazon Prime membership recently surpassed more than 150 million globally and the fourth quarter of last year accounted for the largest increase on record. For industrial investors, the increase in online shopping should spill over onto other retailers and drive the need for last-mile distribution centers. In secondary and tertiary markets, logistic networks for more prompt delivery are still being created. Walmart, meanwhile, is rolling out a subscription plan to deliver groceries and some general merchandise items. As these large retailers shift more of their focus to delivery models, the need for warehouse and distribution space throughout the supply chain will increase.

Manufacturing Less Impacted Than Overall Job Market



Rising E-Commerce Demand Reinforces Industrial Sector's Strength



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