

Schumpeter | The e-commerce boom makes warehouses hot property

The warehouse king battles a master of the universe

IN THE LATE 1990s Hamid Moghadam, an Iranian-born property developer, made a \$5m bet on Webvan, an American online grocer. It was a bust. Webvan was one of the most spectacular casualties of the dotcom crash. More galling still, Mr Moghadam turned down the opportunity to invest in another e-commerce upstart called Amazon, thinking its focus on books was too narrow compared with groceries. Yet some people can win even by losing. Sensing a potential bounty in the online craze, the firm he co-founded, AMB, sold its portfolio of shopping centres and bought millions of square feet of warehouse space on the tarmac of American airports instead. “We got the company wrong, but we got the big trend right,” he says. Two decades later the company he heads, Prologis, is Amazon’s biggest landlord. Mr Moghadam, now 63, stands tall over the world’s warehouse business.

A Stanford graduate who got his start in property because no one else in America would hire him during the Iranian revolution, Mr Moghadam has made a career of bold bets. In 2011, with property still reeling from the financial crisis of 2007-09, he led a bumper deal to unite AMB and Prologis, a bigger rival, with a combined \$46bn of owned and managed assets. Since then the property-investment firm has expanded globally. It has assets of \$125bn and floor space of 1bn square feet (90 square kilometres, or a Manhattan-and-a-half). A surge of e-commerce during the covid-19 pandemic has helped underpin its share price; its market value of \$68bn is just below an all-time high. Yet Mr Moghadam is not alone in realising that the humble shed can be as good an investment in the e-commerce era as shovels were during the Gold Rush. Blackstone, the world’s largest alternative-asset manager, invested more than \$25bn last year in warehouses in America and Europe. It calls logistics its “highest-conviction global investment theme”. A battle over industrial wasteland is under way.

It is hard to imagine Stephen Schwarzman, Blackstone’s high-society boss, talking as passionately about the nitty-gritty of logistics as Mr Moghadam (who has a fraction of Mr Schwarzman’s wealth). Yet a contest between the king of warehouses and the baron of private equity will be worth watching. It will not just shape the future of e-commerce. It will change the urban landscape, too.

To see why, cycle, as Schumpeter did last weekend, up London’s Lea Valley, an idyll of canal boats and riverside vegetable gardens running from the graffiti-covered East End to the capital’s north. Stop at the Ravenside Retail Park, a place of shuttered stores like Mothercare, a well-known British brand, and Maplin, an electronics retailer. It is destined to become ground



zero for the retail apocalypse. In January Prologis spent £51m (\$68m) acquiring the site, just before covid-19 accelerated the agony of its remaining tenants. In a few years, once they, or their leases, expire, Prologis hopes to turn the area into a multistorey warehouse for e-commerce firms like Amazon. That is part of a global pattern. In America such logistics hubs are rising from the rubble of dead shopping malls.

It is easy to dismiss the warehouse business. As one industry boss puts it, investors used to think of it as “four walls and a roof that you hope doesn’t leak”—in other words, highly commoditised. Yet Mr Moghadam says it is enthralling. The first task, he says, is to decide on which end of the supply chain to be. He settled on mass consumer markets around the world rather than serving producers, because, as he puts it, “Consumers do not move, factories do.” As a result, his warehouses sit close to huge urban areas where land is scarce. It also requires patience. In America it has taken decades for e-commerce to eke out a double-digit share of retail spending. Lockdowns have turbocharged the shift. Before the pandemic about a fifth of Prologis’s warehouse construction was for e-commerce, and the rest for other forms of logistics. The e-commerce share is now as high as 40%, Mr Moghadam says.

Storage-space race

Two other challenges for warehouse developers are ensuring customer loyalty and a stream of financing. Stockmarket analysts play down Blackstone as a threat on the first count. They say private equity’s “buy it, fix it, sell it” mentality prevents logistics firms from building the long-term relationships that enable them to move with their clients around the world. But Blackstone’s staying power should not be underestimated. It started its warehouse portfolio a decade ago. It currently owns 850m square feet of logistics space globally. It has \$45bn of investor money earmarked for property transactions. Prologis

says it has more than \$13bn in such “dry powder”. It has also used stock in recent transactions.

The pandemic may make the warehouse business yet more attractive. As tenants struggle to pay rent, bad debts are rising. But unlike the slump a decade ago, pre-pandemic utilisation rates were high, and e-commerce increases demand for space, because online retailers must stock a wider variety of products. “This is the tightest real-estate market that I have ever seen,” Mr Moghadam says. That will put a floor under rents in the future, he believes.

That future is likely to be ever closer to large urban or suburban areas, as online retailers strive to shorten delivery times. Until recently, the trend was constrained by a lack of land and labour. Neither city officials nor workers looked favourably on warehouses. The pandemic may change that. The blight on shops and hotels will free up space. Unemployment will make logistics jobs more attractive, as Amazon has recently demonstrated.

Moreover, Prologis wants to burnish the industry’s image. To see how, cycle back down the Lea Valley to the heart of the East End, where it hopes to refurbish a listed four-storey warehouse dating back to the Victorian era. The aim is to include storage, light manufacturing, creative industries, a gym and a coffee shop. It will be solar-powered and surrounded by green space. A few decades ago abandoned industrial warehouses became trendy places to live. Those of the future may even be alluring places to work.

Editor’s note: Some of our covid-19 coverage is free for readers of The Economist Today, our daily newsletter. For more stories and our pandemic tracker, see our coronavirus hub

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