



E-commerce and the Future of Retail, Delivered by Logistics Real Estate

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The bottom line: Following our [May 11 webinar](#) on the outlook for logistics real estate, we have continued to field questions about our assumptions for demand. In this piece, Prologis Research re-examines the components of our demand outlook.

Key findings:

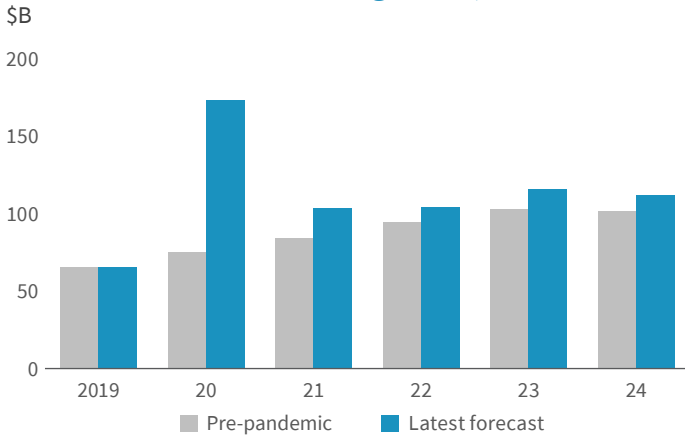
1. **We're holding our 2022 demand forecast.**
2. **E-commerce is in a new—and expected—phase of growth.**
3. **Demand for e-commerce continues to diversify.**

A common question involves a partial spending rotation from goods to services, online to in-store. This is temporary and we have been expecting this to occur, which means we're not changing our stated view on demand. We are watchful on rising levels of consumer stress and modeled -5% real growth in retail goods sales in our Q1 2022 earnings call. We estimate that the market is experiencing more than 800 million square feet (MSF) of pent-up **incremental** demand even with this pullback. But, in 2022, only 375 MSF will come online to meet this demand. The constraints on capacity remain clear. Given this, our current forecast points to 360 MSF of net absorption resulting in year-end vacancy of 3.3%—less than half the low from the prior cycle. Correspondingly, logistics rents in the U.S. have risen in line with our forecast of 22% for 2022, consistent with **an historic low True Months of Supply**.™

The future of retail is a further shift to e-commerce. These factors will keep upward pressure on the e-commerce penetration rate:

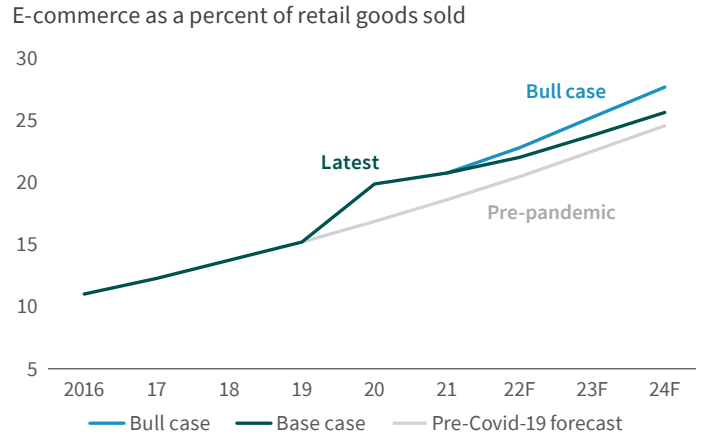
1. **Consumers like what e-commerce offers: convenience and choice.** Over the 2021 holiday shopping season, the proportion of consumers using same- or next-day delivery held steady. To contrast: People who bought goods online and then drove to the store to pick up their purchases decreased compared to 2020.¹
2. **The buildout of supply chains fosters a more uniform and higher service level, which in turn attracts sales.** More than 90% of consumers expect delivery in three days or less; 30% expect same day.² About 85% of online shoppers will shop elsewhere if delivery times are too long.³
3. **The pandemic put many physical stores out of business. Consumers don't have as many retail options close to home anymore.** According to Coresight Research, net U.S. store closings totaled nearly 6,200 from 2020 to 2021.

Annual e-commerce sales growth, U.S.



Source: Euromonitor, U.S. Census, Prologis Research

E-commerce sales penetration, U.S.



Source: U.S. Census Bureau, Euromonitor, Prologis Research forecasts

E-commerce revenue growth will exceed its pre-pandemic trajectory; a bull case exists based on expanding capabilities.

E-commerce sales volumes are growing off of a higher base because of the pandemic-driven shift. However, real-time data reflects a temporary pause in online sales growth as the consumer begins to venture out and has preference for experiences (dining, travel, etc.) We have long called for this shift in retail sales and have factored it into our forecasts (see Appendix A). As far back as 2020, we called for an eventual “surge and then a lull,” maintained that message through 2021, and recently reiterated “online sales to step back temporarily before it gets back to a growth curve.”

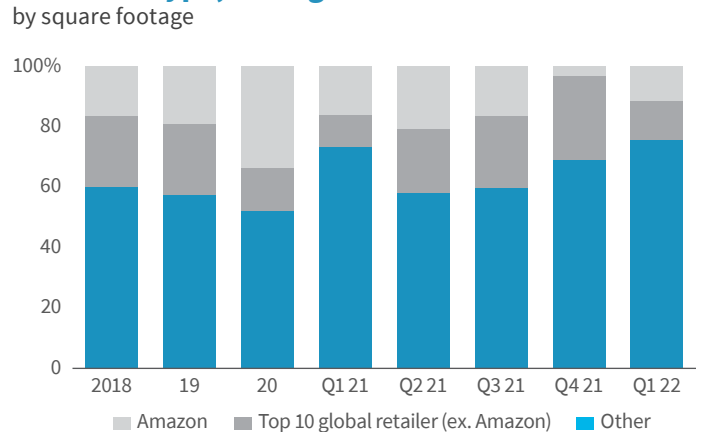
Looking ahead, our base case reflects e-commerce reaching 25% of retail goods sold by 2025. In our bull case, e-commerce share climbs higher due to faster deployment of same-day and next-day delivery capabilities, improved online sales technologies (e.g., augmented reality, metaverse purchasing) and continued capability investments in under-penetrated segments like furniture and groceries.

E-commerce is in a new phase of growth—Amazon is unique because it acted quickly to secure space. Prologis Research estimates 300 MSF of demand generated by the shift from 15% to 21% e-commerce as a proportion of total retail goods sales from 2019 to 2021. Amazon represents approximately 42% of the U.S. online sales market⁴ and absorbed nearly 200 MSF during 2020 and 2021.⁵ Even as its largest user, Amazon represents less than 3% of occupied logistics space.⁶

What’s important? E-commerce demand is diversifying.

The pandemic’s impact on the growth of e-commerce extends across retailer categories and product lines and has spurred retail business formations.⁷ Prologis leasing data shows that in the year through Q1 2022, non-Amazon customers accounted for 85% of new e-commerce leases, up from 66% in 2020. Amazon’s proportion of new leasing volume peaked in 2020. Today’s e-commerce customer base is more international in nature and spans a wider range of organizational types, from pure online retailers omni-channel brands, direct-to-consumer initiatives, and innovative new companies. In sum, we are watchful on general economic and retail trends, but logistics market conditions are still defined by historic low vacancy, constraints on new deliveries, and pent-up demand.

Proportion of new e-commerce leasing by customer type, Prologis



Source: Prologis

APPENDIX A

Summary of previous Prologis commentary on trends that have been factored into our current demand forecast

[MARCH 10, 2020 – Covid 19 Special Report – Implications for Logistics Real Estate](#)

“...this opportunity could be short-lived as some customers race to gain lost ground and expand their needs for facilities in support of business continuity and higher service levels.”

[APRIL 6, 2020 – Business Update Conference Call](#)

“There is going to be a surge of this stuff and then there’s going to be a lull of this stuff, and then it’s going to stabilize at the higher level, because of the penetration of e-comm and more safety stock.”

[SEPTEMBER 10, 2020 – Evercore ISI 2020 Real Estate Conference](#)

“We’ll give some of this e-commerce stuff back temporarily and then we build off of that basis. I don’t expect it to continue surging from these peak levels. But I think it has legs and will continue in a major way.”

[JANUARY 6, 2021 – Prologis Q4 2020 Earnings Conference Call](#)

“Initially, obviously, we’ve had a clear market leader, which is Amazon in excess of 40% of the total volume, but we’re seeing breadth in terms of different e-tailers that are now growing their businesses and have found their footing. So, I think we’re in very early stages.”

[JULY 19, 2021 – Prologis Q2 2021 Earnings Conference Call](#)

“While Amazon remains steady at 6% of total new leasing, we have seen many more e-commerce players come to the table. For example, we signed 168 new e-commerce leases in the first half of 2021 versus 53 in the first half of last year.”

[OCTOBER 27, 2021 – Prologis Breaking New Ground 2021](#)

“I actually think it is going to get worse, because a lot of people already talking about the logjam over Christmas are going to experience it... The short-term problem, I think, is going to be with us through 2023... the world is getting less and less predictable.”

[APRIL 19, 2022 – Prologis Q1 2022 Earnings Conference Call](#)

“I expect the percentage of online sales to temporarily step back a bit before it gets back on a growth curve of ever-increasing penetration levels. And I also believe that the expenditures are going to shift more to experiences than goods like they have been in the last two, three years.”

Endnotes

1. https://www2.deloitte.com/content/dam/insights/articles/us164630_2021-holiday-retail-survey/DI_2021-Deloitte-holiday-retail-survey.pdf
2. <https://www.mckinsey.com/~media/McKinsey/Industries/Retail/Our%20Insights/retail%20speaks%20seven%20imperatives%20for%20the%20industry/retail-speaks-full-report.pdf>
3. https://d1n9pjqnuucpl9.cloudfront.net/pdfs/2021_Flexe_Omnichannel_Retail_Report_COVID.pdf
4. Coresight Research
5. Euromonitor, Prologis Research, 10-K filings
6. Amazon as a proportion of top 50 US logistics markets; source: 10-K filings, CBRE, Colliers, Cushman & Wakefield, JLL, Prologis Research
7. Euromonitor, U.S. Census Bureau

Forward-Looking Statements

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Prologis' Research department studies fundamental and investment trends and Prologis' customers' needs to assist in identifying opportunities and avoiding risk across four continents. The team contributes to investment decisions and long-term strategic initiatives, in addition to publishing white papers and other research reports. Prologis publishes research on the market dynamics impacting Prologis' customers' businesses, including global supply chain issues and developments in the logistics and real estate industries. Prologis' dedicated research team works collaboratively with all company departments to help guide Prologis' market entry, expansion, acquisition and development strategies.

About Prologis

Prologis, Inc. is the global leader in logistics real estate with a focus on high-barrier, high-growth markets. As of March 31, 2022, the company owned or had investments in, on a wholly owned basis or through co-investment ventures, properties and development projects expected to total approximately 1.0 billion square feet (93 million square meters) in 19 countries.

Prologis leases modern logistics facilities to a diverse base of approximately 5,800 customers principally across two major categories: business-to-business and retail/online fulfillment.

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