



Quarterly E-Commerce Trends: Industrial REITs Creating Capacity for Shift in Retail Sales

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Summary

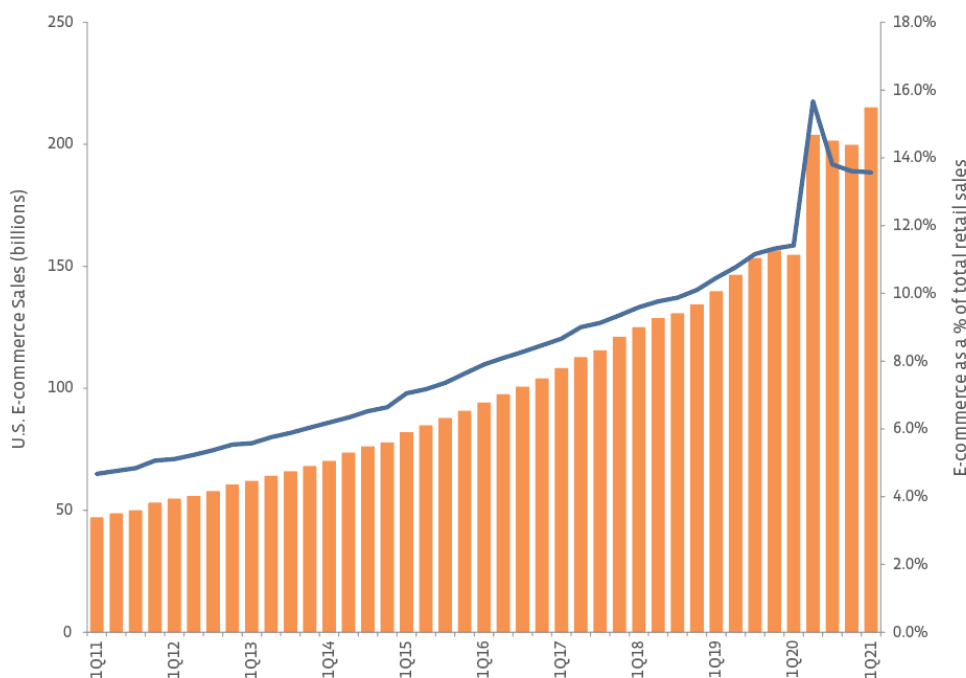
- 1Q21 e-commerce sales were 13.6% of total U.S. retail sales—in line with the past two quarters, but still 39.1% higher year-over-year.
- Supply chains have evolved to fit growing e-commerce needs, with a shift from retail storefronts to distribution centers, particularly near growing population areas and ports.
- As a result, industrial REITs which provide warehousing and distribution space to online retailers are benefitting from the tailwinds of internet giants—evident through higher occupancy rates, higher rents, and growth in warehouse employment.

E-commerce growth has undoubtedly benefitted consumer discretionary companies like Amazon.com (AMZN), Alibaba Group (BABA), and other online retailers and technology companies referred to as “internet giants.” But e-commerce is also a megatrend that opens investment opportunities in a variety of other subsectors including warehousing, data centers, and (electrified) last mile vehicles. In this report, Alerian and S-Network Global Indexes will discuss the U.S. Census Bureau’s 1Q21 e-commerce sales report, highlighting its effects on industrial REITs.

E-commerce overview: Online sales still strong despite reopening of brick-and-mortar stores.

With both brick-and-mortar stores and the service sector returning, e-commerce sales have not yet shown signs of fading. 1Q21 e-commerce sales were 13.6% of total retail sales, which was about in line with results the past two quarters. However, on a year-over-year basis e-commerce sales still grew 39.1% this quarter. For reference, average quarterly y/y growth in e-commerce was around 14% from 2015-2019.¹

E-commerce Sales Growth - Part of the New Normal?



Source: U.S. Census Bureau, Alerian and S-Network Global Indexes as of June 29, 2021

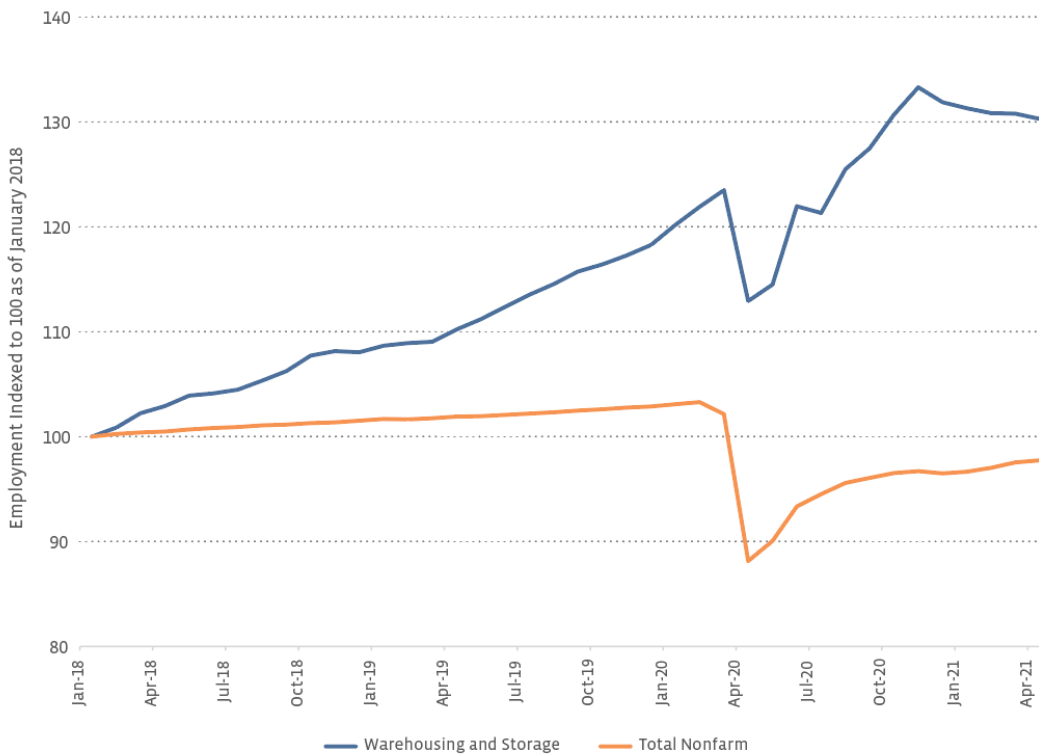
1. U.S. Census Bureau, Quarterly Retail E-Commerce Sales, May 18, 2021, https://www.census.gov/retail/mrts/www/data/pdf/ec_current.pdf

Supply chains are evolving to fit the new e-commerce model.

The growth of e-commerce has caused a shift from retail storefronts to distribution centers, which has many businesses leasing warehouse space near growing population centers and ports. Reportedly, e-commerce sales require three times the warehouse space relative to traditional brick-and-mortar retail sales.² Additionally, CBRE expects the demand for e-commerce logistics space will require another 138 million square miles over the next five years.³ E-commerce trends have also created demand for faster shipping speed (next day, same day, same hour shipping have all become the norm), and strategically placed warehouses help minimize delivery times and manage inventory levels. According to a recent CBRE report, “taking rents” (actual rent) grew 9.7% y/y in 1Q21, outpacing “asking rents” (listed rent) that grew 7.1% y/y as occupancy rates and lease contract lengths increase, particularly near the aforementioned areas.⁴

In addition to increasing rents and occupancy rates, warehouse employment numbers point to strength not seen in the broader economy. In a time when employment levels faltered, warehouse employment not only grew, but has now risen above pre-pandemic levels. To put things in perspective, year-over-year growth in total U.S. non-farm employment averaged around 1.6% monthly over the past 10 years.⁵ Warehouse employment, however, grew exponentially with positive year-over-year growth every month throughout the same period—even during the first half of 2020 when most of the U.S. economy was shut down. During 1Q21, momentum continued as warehouse employment grew 7.5% y/y, compared to a 5.6% y/y decrease in total non-farm employment.⁶

Warehouse Employment Above Pre-Pandemic Levels



Source: Bureau of Labor Statistics, Alerian and S-Network Global Indexes as of June 29, 2021
Warehousing & Storage Employment figures refer to production and nonsupervisory employees.

2. Monmouth Real Estate Investment Corporation, Form 10-Q, March 31, 2021, <https://investors.mreic.reit/filings-reports/default.aspx>
 3. CBRE, Global E-Commerce Outlook, June 2021, <https://www.cbre.co.uk/research-and-reports/Global-E-Commerce-Outlook-2021>
 4. CBRE, U.S. MarketFlash: Industrial Taking Rents Now Growing Faster Than Asking Rents, Reflecting Voracious Demand, June 10, 2021, <https://www.cbre.us/research-and-reports/US-MarketFlash-Industrial-Taking-Rents-Now-Growing-Faster-Than-Asking-Rents>
 5. U.S. Bureau of Labor Statistics, Current Employment Statistics – CES (National), <https://www.bls.gov/ces/>
 6. U.S. Bureau of Labor Statistics, Warehousing and Storage: NAICS 493, June 23, 2021, <https://www.bls.gov/iag/tgs/iag493.htm>

Industrial REITs enjoy the tailwinds as internet giants grow their warehousing space.

As an example, AMZN, which is the largest e-commerce company in the world, increased its leased square footage of fulfillment and data centers in North America by 52.6% in 2020 after a 21.6% increase in 2019.⁷ Industrial REITs are benefitting as many not only have a strong percentage of their portfolio in e-commerce, but also have Amazon as their largest tenant.

Industrial REITs within RDOGX as of June 29, 2021

Ticker	Company	% of rent from Amazon	Amazon Tenant Rank	% of portfolio in e-com	RDOGX index weighting
STAG	Stag Industrial Inc.	4.0%	1	40%	2.4%
MNR	Monmouth Real Estate Investment Corp.	6.7%	2	NE	2.4%
ILPT	Industrial Logistics Properties Trust	10.0%	1	11%	2.5%
LXP	Lexington Realty Trust	6.1%	1	15%	2.3%
PLYM	Plymouth Industrial REIT	NE	NE	NE	2.5%
Total					12.2%

Source: Company filings, Alerian & S-Network Global Indexes, index weights as of June 29, 2021
LXP e-commerce percentage is approximated based on a bar chart in the company's investor presentation.

Bottom Line:

1Q21 e-commerce sales remain strong, which benefit online retailers given that they have the physical capacity to keep up with demand. Industrials REITs provide these online retailers with warehousing and distribution capacity and are enjoying higher occupancy rates and longer lease contracts as a result. As an investment, Industrial REITs can be an alternative method of participating in e-commerce growth that investors have not yet considered.

Relevant Indexes:

Industrial REITs can be found in [The S-Network REIT Dividend Dogs Index](#) (RDOGX), which is the underlying index for the ALPS REIT Dividend Dogs ETF (RDOG).

Internet giants can be found in [The O'Shares Global Internet Giants Index](#) (OGIGX), which is the underlying index for the O'Shares Global Internet Giants ETF (OGIG). OGIGX is owned by O'Shares ETF Investments.

About Alerian and S-Network Global Indexes

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7. Amazon.com, Inc., Form 10-K for the Fiscal Year Ended December 31, 2020, January 31, 2020, <https://ir.aboutamazon.com/sec-filings/sec-filings-details/default.aspx?FilingId=13875159>

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