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COVID-19 and E-Commerce are Changing Retailers’ Real Estate Footprints

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The COVID-19 pandemic has driven a large shift toward online retail transactions. In April of 2020, nonstore sales, mostly conducted through e-commerce, increased by nearly 30 percent while overall retail sales in the US are down 16 percent year over year, according to the Department of Commerce. The recent flood of e-commerce has left unprepared retailers struggling to fulfill orders, as they currently lack the requisite warehouse space and other supply chain capabilities. At the same time, other retailers have been forced into bankruptcy as a result of COVID-related closures. The changing needs of retailers who are adopting e-commerce strategies and the market exits of others are altering the industry’s real estate footprint.

Retailers that lack the infrastructure to support e-commerce are struggling to fulfill increased levels of online-generated orders. A crucial component of the e-commerce business model is warehouse space, as online orders can be fulfilled most efficiently when sellers have existing supplies of inventory. As a result, many large retailers are looking to purchase more urban warehouse space close to consumers or engage third-party logistics companies to supply such space. However, due to the unexpected nature of the current crisis, supply chains have yet to adapt to consumers’ needs. Even Amazon, arguably the most successful e-commerce company with over 200 million square feet of warehouse space, has seen such an unexpected increase in sales during the first quarter of 2020 that it has been unable to guarantee its trademark one-day Prime shipping.

Major grocery chains across the US are having to adapt to a changing business environment, as online sales of groceries are expected to grow by around 40 percent in 2020. Those brands without Amazon’s shipping infrastructure have had to cope with the inefficiencies of in-store pickup for groceries. These inefficiencies include dedicating store space to stage order fulfillment, assigning workers to walk the aisles and handpick items for orders, and providing accurate information on inventory levels when customers are placing orders. Whether or not the e-commerce trend will continue for grocers after the pandemic subsides, many are investing in infrastructure for online fulfillment. Kroger has recently broken ground on a new 335,000-square-foot automated warehouse facility in Monroe, Ohio. The company’s decision to focus on online orders had already led it to close a nearby Ohio location to the public, reserving it entirely for online fulfillment. As other grocers consider this strategy, they should check any leases they may operate under for use restrictions or required approvals for alterations to the store or common areas.

The pandemic is forcing many retailers to change the way they use real estate. Traditional storefront retailers are buying up warehouse properties and converting store space for online fulfillment. Sellers who have closed their brick-and-mortar locations are also looking into warehouse space for overflow storage. As state-ordered closures have ravaged traditional retail in malls, many investors are looking to convert mall space into mixed-use properties. While the country begins to emerge from months of shelter-in-place, the real estate landscape and business needs of retailers are rapidly changing.

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