

# SOUTH FLORIDA BUSINESS JOURNAL



## Retail giants battle for space

**Surging online sales increased demand for industrial real estate across South Florida virtually overnight, but there are only so many properties to go around**

By Brian Bandell – Senior Reporter, South Florida Business Journal – Dec. 31, 2020

More online orders means businesses, from e-commerce firms such as Amazon.com to traditional brick-and-mortar retailers looking to compete online, need greater storage capacity to serve more customers. That's a particular challenge in South Florida, a dense urban center without a big supply of vacant land for distribution centers.

E-commerce firms are often willing to pay top dollar to reach population centers faster, which could enable industrial developers to pursue projects that otherwise wouldn't have been financially feasible, such as building closer to urban cores or pursuing more costly redevelopment jobs. The trend is poised to create more jobs, both in the logistics industry and development.

"Five years ago, e-commerce in South Florida industrial was practically nothing, and now it's at least 30% of new deals and net absorption, if not more," said Brian J. Smith, managing director of industrial in South Florida for JLL. "The world has changed. A year ago, you would be OK with getting a package in a week. Today, you expect it in a day. Amazon has set the trend and if competitors can't get close to that, they are in trouble."

The rapid acceleration of e-commerce sales during the Covid-19 pandemic has created challenges for the traditional retail market. But it has supercharged demand for another major real estate sector: industrial.

The trend is sparked by online sales, which are expected to surge 32.4% this year, according to eMarketer. There's no slowdown in sight as more consumers rely on e-commerce to fulfill their shopping needs during the pandemic. And online shopping will be a tough habit to break for consumers post-Covid-19, as they've grown accustomed to the convenience of home deliveries, experts say.



Brian Smith, JLL      JLL

The good news for the economy is e-commerce creates more jobs per square foot of space than a typical warehouse, as packing, sorting and deliveries require more workers, Smith said.

The boost from the e-commerce sector couldn't come soon enough for industrial landlords in South Florida, as the pandemic has hurt many of their tenants. Many warehouses are used to store supplies for cruise ships, hotels and conference/event centers, and those businesses have been stifled, said George Pino, president of Miami-based industrial brokerage State Street Realty.

"While all these industries are at a standstill, e-commerce has more than offset the demand for industrial real estate," Pino said. "The surge of online ordering is such that it has required these e-commerce companies to take warehouse space they thought they would need five years from now. That's equivalent to millions of square feet of space in Miami [alone]."



*George Pino, State Street Realty Aixa  
Montero Holt*

## **Fight for the last mile**

Amazon has made huge investments to expand its distribution networks, especially in South Florida. This year, it announced plans for 1 million-plus-square-foot centers in Homestead and northern Palm Beach County.

It is also adding last-mile distribution centers, which reroute goods from regional facilities directly to customers. One such center is planned in Pompano Beach.

Now, a host of traditional retailers and e-commerce competitors seek last-mile distribution facilities of their own in the race to reach customers' doors faster.

Both Lowe's and Home Depot have shifted more toward e-commerce deliveries to construction sites, instead of having customers wait at stores for building products, said William G. Hardin, associate dean and professor of real estate at the Chapman Graduate School of Business at Florida International University.

Home Depot is building a 1 million-square-foot regional distribution center in Hialeah, and sources indicate Walmart is in the market for big distribution sites in South Florida.



*William Hardin, Florida International University Florida International University*

Most retailers know how many goods they sell in a given location. The challenge is to have speedy last-mile delivery in those areas to curb lengthy wait times, Hardin said. Many warehouses are designed with large truck courts for 18-wheelers that arrive a handful at a time, not a fleet of delivery vans that zip in and out, so e-commerce sites typically have larger parking lots and loading areas.

Big e-commerce companies are seeking last-mile delivery centers of 100,000 to 200,000 square feet, said Stephanie Rodriguez, senior VP of the Florida region for industrial developer Duke Realty Corp. (NYSE: DRE). Meanwhile, traditional retailers use their brick-and-mortar locations to fill online orders while they work to establish regional distribution centers for online orders.



*Stephanie Rodriguez of Duke Realty Jock Fistick / South Florida Business Journal*

"The Amazons of the world have figured it out," Rodriguez said. "Now the other retailers are trying to figure out how to catch up, but they have already been lapped in some places."

E-commerce companies are considering areas further from the urban core, such as Homestead and western Broward and Palm Beach counties, experts say. Unlike traditional logistics companies that want to be near ports, e-commerce firms value being near consumers.

"Major retailers like Walmart, Target, Best Buy and Home Depot are aggressively getting into e-commerce to compete with Amazon for market share, and speed is really the criteria," said John Boyd, principal of the Boyd Co., a Princeton, New

Jersey-based firm that helps companies with site selection.

South Florida is a perfect test market for e-commerce development because of its immigrant population and overall diversity, which has created demand for a variety of products not readily

available on store shelves, Boyd said. One of the main reasons UPS is expanding its facilities in South Florida is to boost its capability to deliver packages for Amazon, he said.

Many industrial tenants have placed more focus on online sales during the pandemic, said Kevin Carroll, a partner in the Miami-based Southeast regional office of industrial builder Bridge Development Partners. That includes traditional retailers such as auto parts companies, and companies that previously only did business-to-business sales, but now deliver directly to consumers.

"We feel strongly that the supply chain logistics model is going to change," Carroll said. "You have to fish where the fish are, and these tenants need to be closer to their customer base to compete long term."

### **Logistics in reverse**

One of the drawbacks of online sales is that customers are more likely to return goods, often with free shipping. Some people order three pairs of the same shoes, keep the pair that fits, and return the rest. This has created a conundrum as delivery firms deal with increasingly larger stacks of returned goods.

"So many returns come in that they don't have the capacity in their warehouse to handle the reverse logistics," State Street Realty's Pino said. "With all the ordering for the holidays, we're expecting reverse logistics to boom."

Several experts said e-commerce firms are seeking stand-alone facilities in South Florida exclusively for returns, known as reverse logistics. Pino said three in every 10 items ordered online get returned, compared to one in 10 in-store purchases.

### **More dollars for developers**

Buying land near the urban core is a costly endeavor, and so is rezoning and redeveloping a site with an existing building or golf course. In recent years, it was mostly multifamily and mixed-use projects aiming for these deals, but industrial developers are increasingly taking on more pricey projects, thanks to the premium rents paid by e-commerce firms.

Mobile home parks, golf courses, flea markets and filling in man-made lakes are some options being considered for industrial development, said Adam Vaisman, director of acquisitions and development at Coconut Creek-based Butters Construction & Development. Redeveloping a retail center is also a possibility, but it may be tough to justify because retail rents are still significantly higher than industrial rents, he said. Malls have been redeveloped into warehouses in other parts of the country where the retail market isn't as strong as South Florida's.



*Steven McCraney President/CEO,  
McCraney Property Co.*

"The malls in South Florida still do pretty well, but some of the old big-box retail buildings, down the road I could see redevelopment potential there," said David Blount, principal at Foundry Commercial, an industrial developer that has built several South Florida projects for Amazon.

Still, South Florida isn't far off from seeing a trend that started in markets including New York and Seattle: multistory warehouses, Blount said. It's more expensive to build a two-story warehouse, with both floors needing 32-foot ceilings and an elevated truck court. However, if the facility saves the e-commerce company 15 minutes per delivery, the higher rent expense may be worthwhile.

The demand for parking is the biggest challenge for redeveloping an urban site for e-commerce, said Steven McCraney, CEO of West Palm Beach-based industrial developer McCraney Property Co.

In some cases, a developer may need to buy and tear down a neighboring building to create enough parking for the delivery fleet. Given the increased demand from e-commerce companies, that may happen. "This pandemic has advanced demand for e-commerce by at least four to five years," McCraney said. "They not only need space, they need it like yesterday."