



THE DEFINITIVE GUIDE TO OMNICHANNEL REAL ESTATE

CBRE

Retail Science from CBRE

THE DEFINITIVE GUIDE TO OMNICHANNEL REAL ESTATE

Despite their ubiquity, the terms e-commerce and omnichannel are shrouded in confusion. What counts as an online sale? Do retailers really need stores? Who is the omnichannel consumer?

Worse yet, much discussion of these topics is marked by misconceptions and missing data, making it difficult for industry players to adapt and plan for growth.

This guide enlists the latest data and research to lift the veil of omnichannel confusion. We have assembled the industry's definitive source of omnichannel insights—from e-commerce, to store formats, to supply chain—to outline how e-commerce is impacting the retail and real estate industries today and to forecast how it is likely to shape our sector in the future.

CONTENTS

RETAILING

- **What is omnichannel retailing?**
- **What are the biggest opportunities e-commerce presents to retailers?**

CONSUMERS

- **What do we know about the omnichannel consumer?**
- **Do consumers really prefer shopping online?**

BY THE NUMBERS

- **What is e-comms' share of retail sales?**
- **How does e-commerce share vary by category?**

REAL ESTATE IMPACT

- **How are retailers adapting stores to omnichannel?**
- **How is e-commerce growth impacting industrial real estate?**



RETAILING

- **What is omnichannel retailing?**
- **What are the biggest opportunities e-commerce presents to retailers?**

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WHAT IS “OMNICHANNEL RETAILING”?

Although “omnichannel” is the latest retail buzzword, there remains confusion about what exactly it means. Very simply, omnichannel refers to retailers and consumers combining multiple channels to market, sell, buy and deliver goods. Less simply, however, omnichannel can take various forms for both the shopper and the retailer.

OMNICHANNEL SHOPPING

For consumers, the omnichannel shopping journey can take many forms but all involve a combination of online (computer or mobile device) and offline (brick-and-mortar) channels. Figure 1 compares several single-channel and omnichannel shopping journeys.

FIGURE 1
OMNICHANNEL SCENARIOS

| SCENARIO | OMNICHANNEL? |
|---|--------------|
|  ————— BUY IN STORE ————— | ✗ |
|  +  ————— BUY IN STORE + RETURN IN STORE ————— | ✗ |
|  +  ————— BUY ONLINE ON A COMPUTER + RETURN IN STORE ————— | ✓ |
|  +  ————— RESEARCH ON MOBILE DEVICE + BUY IN STORE ————— | ✓ |
|  +  +  ————— RESEARCH IN-STORE + PURCHASE ONLINE + RETURN IN-STORE ————— | ✓ |

Source: CBRE Research, 2018.

OMNICHANNEL RETAILING

Omnichannel retailers differ from single-channel operators in that they leverage both online and offline space to sell and deliver goods. As with customer journeys, omnichannel retailers can use different formats. While some may focus primarily on digital channels to sell goods, others may rely more heavily on their brick-and-mortar network. For example, an omnichannel retailer might generate most of its revenue online, but leverage a select number of brick-and-mortar showrooms for their products to be viewed and tested. An alternate example is a mall-based retailer that derives most of its revenue from store sales, but uses mobile and online channels to market and sell goods.

Before the term “omnichannel” came to the fore, many used the term “multichannel” to describe the scenarios above. Though the two have very similar meanings, “omnichannel” has become more popular because it places emphasis on the need for integration between channels. For consumers, it means a “seamless” experience moving between online and offline channels; for retailers, it means a single platform that offers coordinated digital and physical options that allow channels to complement one another rather than compete.

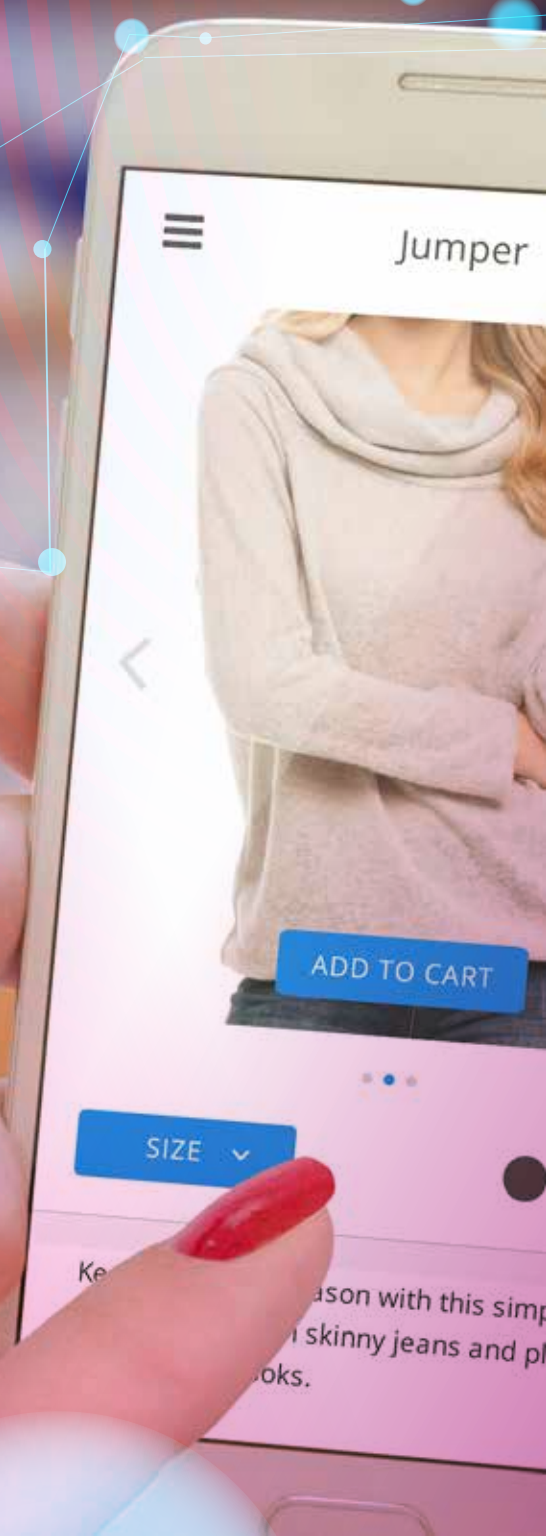
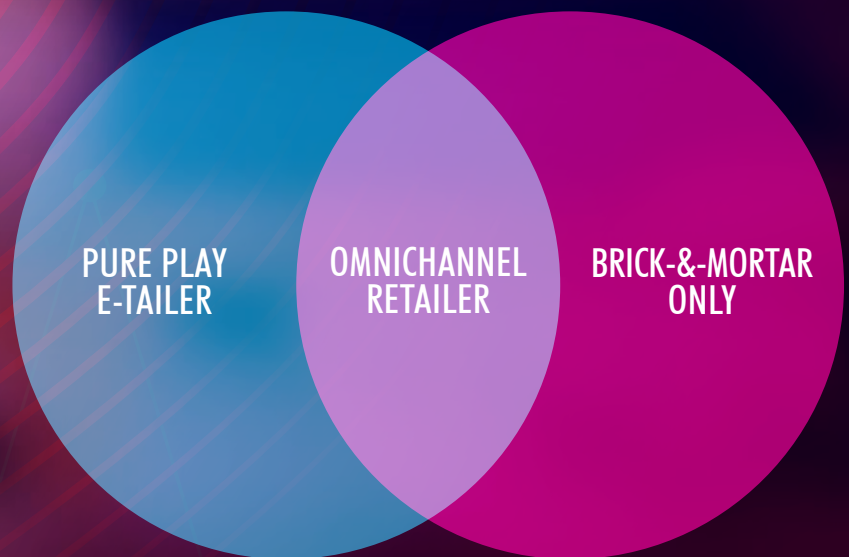




FIGURE 2
SINGLE CHANNEL VS. OMNICHANNEL RETAILING



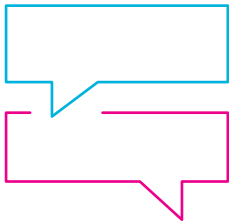


WHAT ARE THE BIGGEST OPPORTUNITIES E-COMMERCE PRESENTS TO RETAILERS?

E-COMMERCE DISRUPTION LOSS OR OPPORTUNITY?

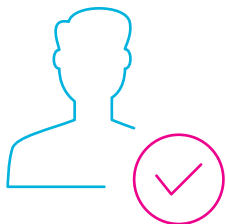
There is little doubt that recent e-commerce growth has driven significant disruption in the retail sector. In most cases, this disruption is blamed for financial losses and brick-and-mortar closures across the industry. However, little attention is paid to the benefit e-commerce provides retailers, including brick-and-mortar brands.

Here, we consider four key opportunities that e-commerce presents to retailers. Those retailers that seize these opportunities and learn to leverage them in a truly omnichannel business model will be best-positioned to thrive through the current period of change.



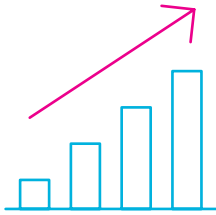
OPPORTUNITY 1: TOUCHPOINTS, TOUCHPOINTS, TOUCHPOINTS

The move to digital shopping creates opportunities for retailers to leverage additional customer touchpoints across a wide array of platforms and services. Previous interaction with consumers was often limited to short-term, in-store exchanges. Due to today's widespread use of smart phones, retailers have invested heavily in multichannel marketing that can reach customers instantly and continuously through proprietary apps, email, text messages and social media. By engaging with consumers across various media channels, retail brands have unprecedented access to new customers and can build closer relationships with existing patrons.



OPPORTUNITY 2: ROOM TO FOCUS ON CUSTOMER EXPERIENCE

As transactions shift to online channels, omnichannel retailers can shift their focus from stocking shelves to driving innovative experiences in their physical stores. Retail brands are making key investments in brick-and-mortar experiences, including convenience features like automated and mobile check-outs (Zara, Nordstrom), "magic mirrors" that allow shoppers to digitally try on products (Neiman Marcus) and food-and-beverage offerings like Restoration Hardware provides in its Chicago flagship. With less space needed to accommodate inventory, retailers are free to come up with creative new uses for real estate and develop a brick-and-mortar brand experience.

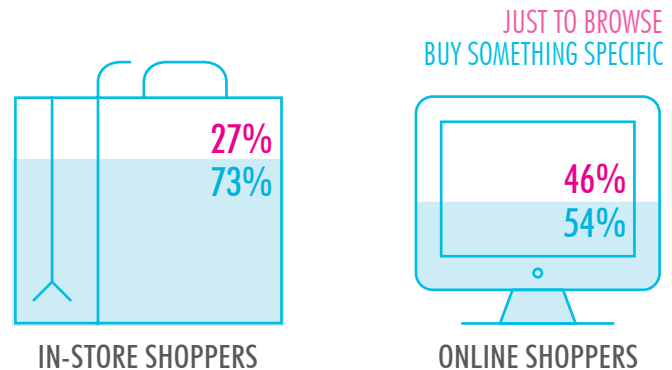


OPPORTUNITY 3: GROWING TRAFFIC AND SALES

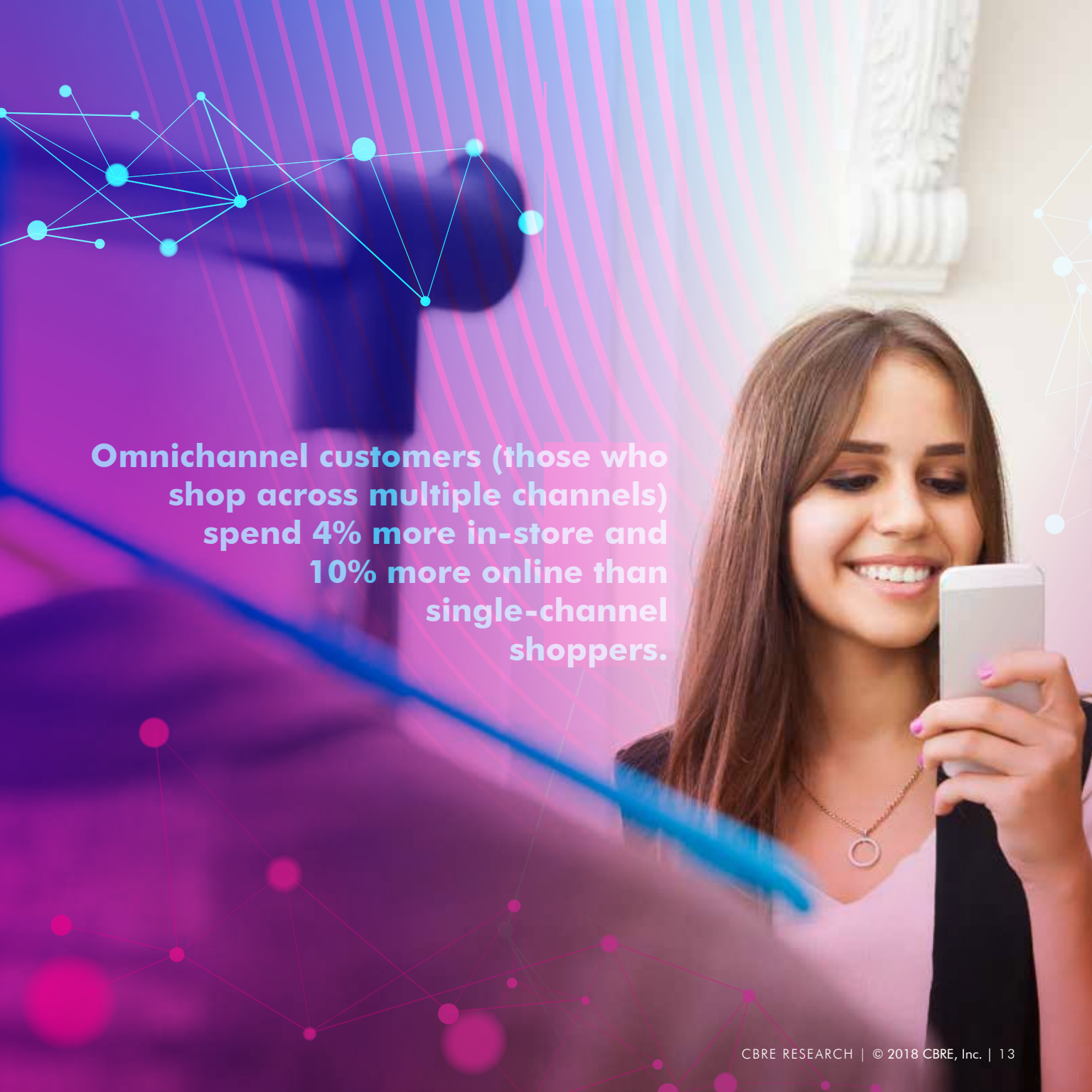
Both research and case studies confirm that adding e-commerce channels to brick-and-mortar store networks can help a brand grow its customer base and drive revenues. A 2017 study by the Harvard Business Review found that omnichannel customers (those who shop across multiple channels) spend 4% more in-store and 10% more online than single-channel shoppers.¹ The study also found that the more channels a customer used, the more money that customer spent in-store. This is because consumers are learning to combine the distinct benefits of each channel, such as using online channels to browse and in-store channels to test products. The National Retail Federation found that a majority of in-store shoppers (73%) go to the store with the intention of buying something specific; behaviors are very different online, where nearly half of shoppers spend their time just browsing (Figure 1). Combining channels ultimately helps consumers find and purchase products faster. These trends align with retailers' findings that closing a store can drive down online sales in that market by up to 20%. Retailers that can facilitate this channel-surfing process will win in both customer loyalty and sales.

¹ <https://hbr.org/2017/01/a-study-of-46000-shoppers-shows-that-omnichannel-retailing-works>

FIGURE 1
**CONSUMERS' SHOPPING
INTENTIONS VARY BY CHANNEL**



Source: National Retail Federation, Winter 2017/2018.

A woman with long brown hair is smiling and looking at a white smartphone. She is wearing a light pink top and a necklace with a circular pendant. The background is a blurred indoor setting with a white architectural detail. Overlaid on the image are several graphic elements: a network diagram with blue and pink nodes and lines in the top left, a series of concentric pink and blue arcs in the center, and another network diagram with pink nodes and lines in the bottom left.

Omnichannel customers (those who shop across multiple channels) spend 4% more in-store and 10% more online than single-channel shoppers.

CONSUMERS

- **What do we know about the omnichannel consumer?**
- **Do consumers really prefer shopping online?**

MORE AT [CBRE.US/OMNICHANNELGUIDE](https://www.cbre.us/omnichannelguide)

WHAT DO WE KNOW ABOUT THE OMNICHANNEL CONSUMER?

The advent of digital channels has introduced a new shopper to the retail marketplace: the omnichannel consumer, defined as a shopper who buys across both digital and physical channels. For both retailers and landlords, understanding how and why the omnichannel consumer prefers to shop across channels is key to developing effective sales and real estate strategies. Though the arrival of the omnichannel consumer poses certain challenges to traditional retailing models, this new shopper also introduces opportunities for revenue growth.



HIGH EXPECTATIONS

Accustomed to the speed and convenience offered by the internet, omnichannel consumers have raised expectations for retailers regarding everything from customer engagement and experience to price and product options. Omnichannel consumers have especially high expectations when it comes to receiving goods purchased online: According to a recent UPS study, 64% of online shoppers expect orders placed by 5 p.m. to qualify for next-day shipping or delivery and 61% expect orders placed by noon to qualify for same-day shipping or delivery.¹ The good news for retailers is that consumers are increasingly willing to pay for these high expectations; 75% of shoppers in the same survey said they are willing to pay a premium for expedited shipping.

¹ "2017 UPS Pulse of the Online Shopper" report, 2017.

BIGGER SPENDERS

Omnichannel shoppers may be high-maintenance, but they reward retailers with higher spending. A study by the *Harvard Business Review* found that omnichannel shoppers spend 4% more on in-store purchases and 10% more online than their single-channel counterparts. The study also found that omnichannel customers spent more for each channel they engaged with; customers using four or more channels spent 9% more in stores than those only shopping in the store.

Many argue that access to product research and information online helps drive sales among omnichannel consumers. The Harvard study found that conducting research online correlated to a 13% higher level of in-store spending.



Omnichannel consumers have raised expectations for retailers regarding everything from customer engagement and experience to price and product options.

MORE BRAND LOYAL

Alongside higher spending, omnichannel customers have also proven more loyal to the brands and retailers with which they engage. Omnichannel customers reportedly make 23% more repeat shopping trips to a store within six months of an omnichannel experience.² They are also more likely to recommend a brand to friends and family when compared to single-channel shoppers. These results suggest that engaging with consumers across multiple platforms is an important key to not only generating new customers but to retaining them.

² *Harvard Business Review*, "A study of 46,000 shoppers shows that omnichannel retailing works," January 2017.



STILL VALUE THE STORE

Though most discussion of omnichannel shopping focuses on digital channels, the store remains a key venue for omnichannel shoppers. More than 90% of total retail sales still occur in the store, and consumers continue to use the store for research even when making purchases online. Interestingly, many consumers prefer returning items to physical stores rather than shipping them. According to the UPS study, 58% of respondents prefer returning an item to a physical store compared to 42% who prefer to ship back to the retailer. Retailers should focus on leveraging the store for returns, as the same study found that 66% of those who returned an item to the store made a new purchase while there.

DO CONSUMERS REALLY PREFER SHOPPING ONLINE?

E-commerce accounts for almost 9% of retail sales in the U.S. today and has been growing nearly three times faster than brick-and-mortar sales since 2010. The assumption by shoppers, the media and industry players alike is that consumers increasingly prefer online over in-store shopping and that e-commerce will eventually overtake brick-and-mortar as the primary shopping channel.

Though prevalent, this assumption is false; online channels may be growing their share of retail transactions, but consumers' shopping preference is omnichannel: combining multiple channels for a single purchase.

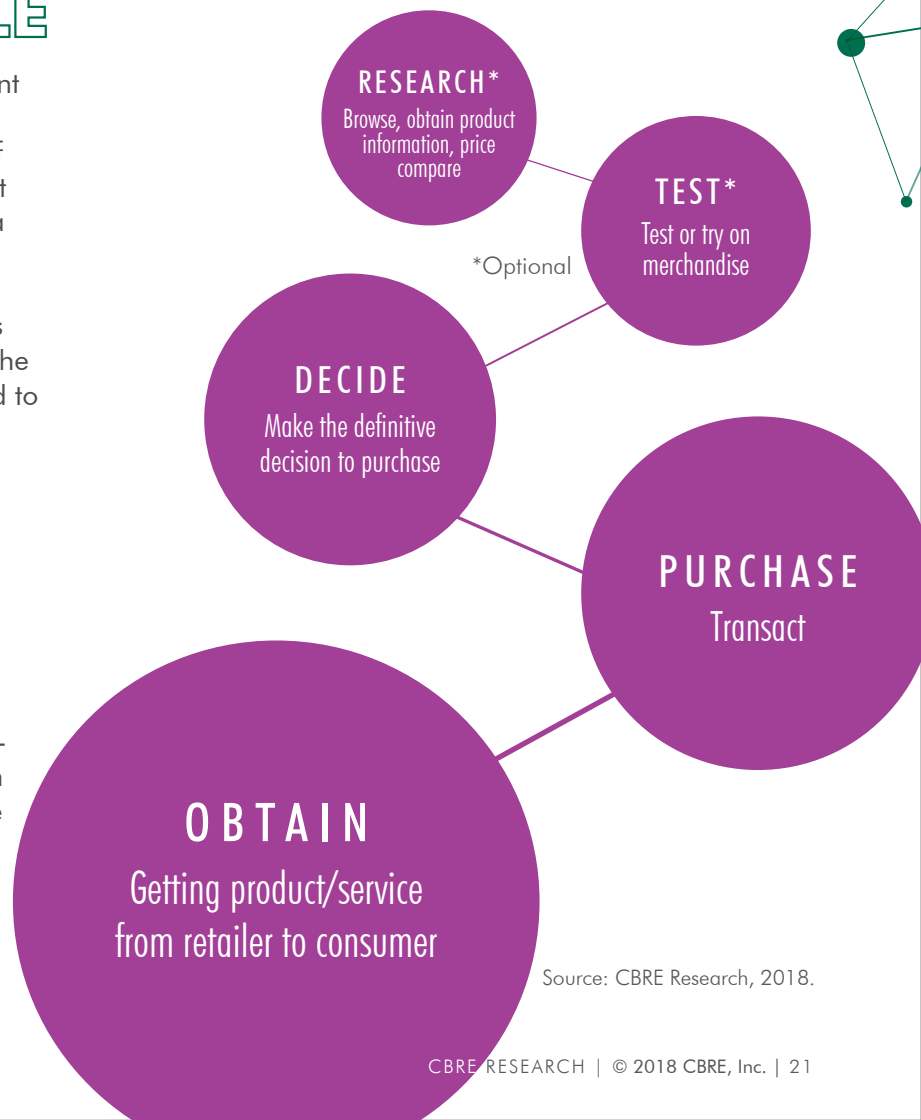
CHANNEL SURFING BEYOND THE POINT OF SALE

In determining the relevance of different shopping channels, focus is all too often placed exclusively on the point of transaction, sometimes called the point of sale, where the actual purchase of a good or service takes place.

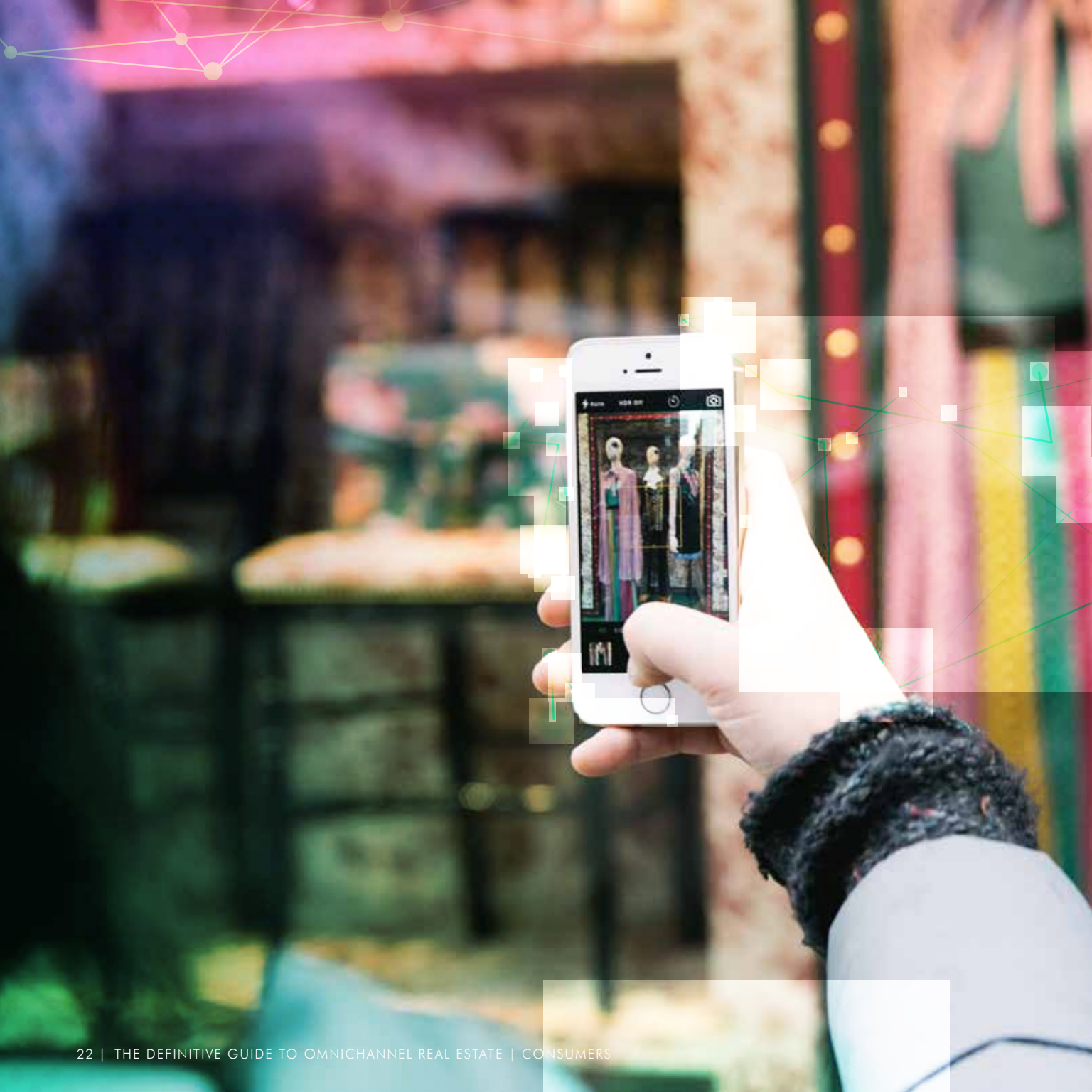
However, this focus oftentimes neglects the importance of other key stages of the purchasing process, frequently referred to as the shopping journey (Figure 1).

Each stage of the shopping journey can take place either off-line (in-store) or online (phone, tablet, computer) or in combination and consumers are increasingly choosing to mix different channels for a single purchase; a shopper may choose to research a product on a phone, test the product in-store, decide to purchase the product in the store, but make the actual purchase offline at home. This is a phenomenon CBRE terms “channel surfing”.

FIGURE 1
KEY STAGES IN THE SHOPPING JOURNEY



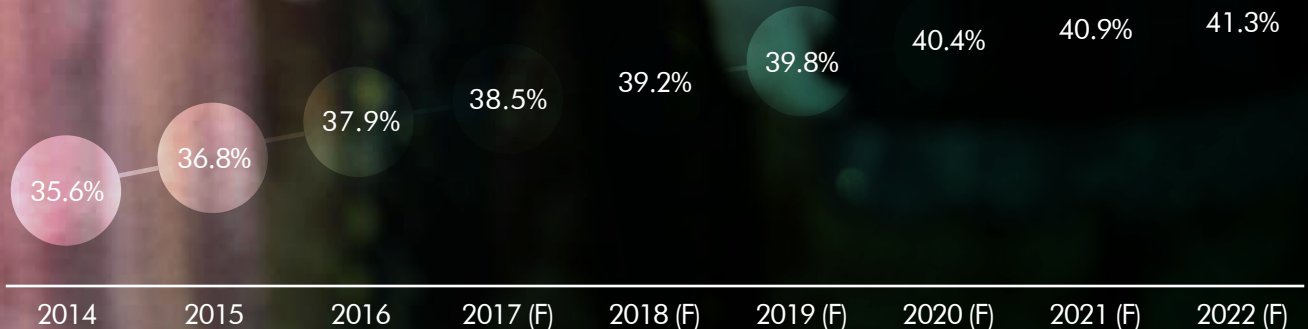
Source: CBRE Research, 2018.



DIGITAL INFLUENCING PHYSICAL

Most official data comparing e-commerce and brick-and-mortar sales focuses solely on the point of purchase, which obscures the importance of other channels in the shopping process. One study by Forrester Research, however, suggests that 38.5% of in-store purchases were digitally influenced in 2017 (meaning that customers may have researched, browsed or price-compared online before purchasing in the store). This percentage has been rising steadily since 2014 and is forecast to exceed 41% by 2022, indicating continued growth in consumers' omnichannel shopping habits.

FIGURE 2
PERCENTAGE OF OFFLINE SALES
THAT ARE DIGITALLY INFLUENCED



Source: Forrester Research, 2018.

PHYSICAL INFLUENCING DIGITAL

The influence of brick-and-mortar stores on consumers' online purchases is harder to quantify, but retailers generally find that offline channels can help drive online sales. Several major retailers report that their online sales decline in markets where a brick-and-mortar location is closed; conversely, they report that online sales increase noticeably in markets where a new store is opened. These trends offer further evidence that consumers prefer combining channels to make a final transaction, and that having access to multiple channels to research, test and purchase a good or service facilitates sales.

One of the most compelling pieces of evidence that brick-and-mortar locations can help drive online sales is the clicks-to-bricks trend, in which pure-play e-tailers open physical stores. For many online-only brands, offering consumers brick-and-mortar locations enables stages of the shopping journey that many customers prefer to do in-store (testing products and deciding on a purchase) and is key to unlocking revenue and profit growth beyond what is available with an online-only presence.





WHAT DOES THIS MEAN FOR RETAILERS?

As omnichannel becomes the dominant consumer shopping trend, it is critical for retailers to present customers with multiple channel options that are well-integrated. The channel-surfing consumer seeks a seamless transition between digital and physical options throughout the shopping journey, and those brands that can cater to this demand are best positioned for growth in an omnichannel world.



BY THE NUMBERS

- **What is e-comms' share of retail sales?**
- **How does e-commerce share vary by category?**

MORE AT [CBRE.US/OMNICHANNELGUIDE](https://www.cbre.us/omnichannelguide)

The background is a vibrant green with a series of concentric circles emanating from the right side. Overlaid on this are various geometric elements: a network of thin yellow lines with circular nodes, several semi-transparent squares and rectangles in different shades of green, and a few small, solid-colored squares. The overall aesthetic is modern and tech-oriented.

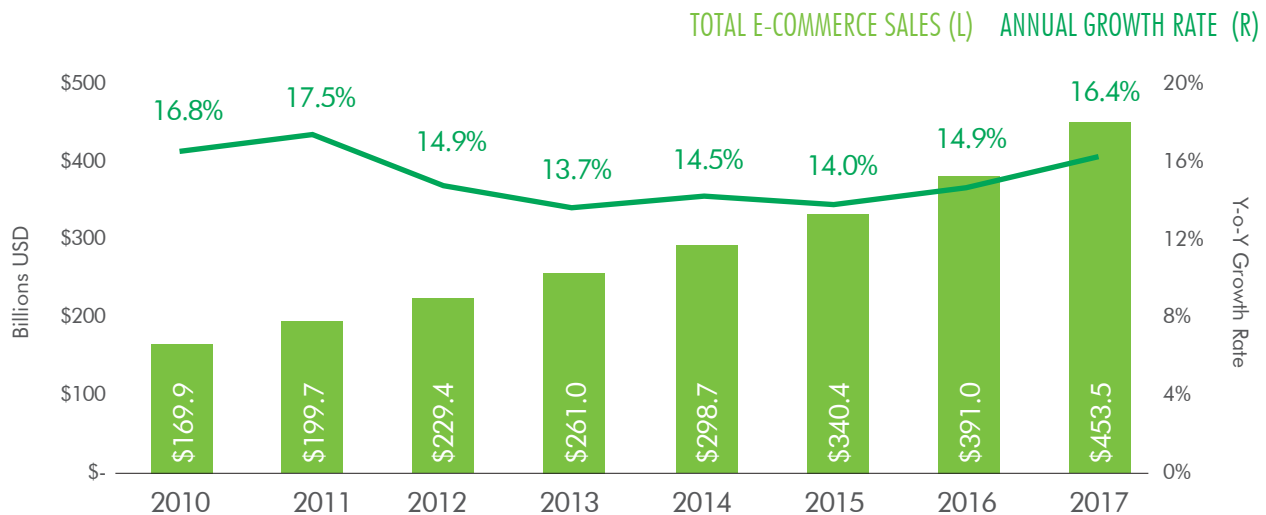
WHAT IS THE SHARE OF E-COMMERCE IN OVERALL RETAIL SALES?

Though most agree that e-commerce is driving rapid transformation in the retail sector, there is less consensus on what percentage of retail sales occur online. Depending on sources and methodology, the share of e-commerce can vary anywhere from 7% to more than 26%. Below is an overview of core definitions and key e-commerce statistics on sales and market share.

E-COMMERCE SALES

E-commerce sales totaled \$453.5 billion in 2017 and have been growing at an average of 15% annually since 2010. The main source for national retail e-commerce figures is the U.S. Census Bureau, which collects the data by asking retailers to report the volume of sales made online.

FIGURE 1
TOTAL E-COMMERCE SALES AND GROWTH RATES



Source: U.S. Census Bureau, eMarketer, 2018.

WHAT IS INCLUDED IN THE CENSUS BUREAU'S E-COMMERCE SALES FIGURES?

- E-commerce is defined as sales of goods and services through digital channels (internet, mobile device, etc.).
- E-commerce sales include internet sales of pure-play e-tailers (retailers that operate solely online) and the online sales of brick-and-mortar brands (i.e., a purchase made through a physical store brand's website).
- Not included in these e-commerce sales is revenue from online travel services, financial brokers and ticket sales agencies.



The background of the slide features a close-up of a person's hand holding a smartphone. A semi-transparent green overlay covers the right side of the image. Overlaid on the left side is a network diagram consisting of yellow dots connected by thin yellow lines, forming a complex web. The overall aesthetic is modern and tech-oriented.

MEASUREMENT CHALLENGES

One of the major challenges to measuring e-commerce is that many retailers count online and in-store sales differently. If an order is placed online and is picked up or paid for in-store, some retailers consider that an e-commerce sale while others classify it as a physical store sale. The same goes for online orders made by a customer while in a store. Because the industry has not set a standard of measurement for what defines an online vs. in-store sale, it is difficult to obtain a fully accurate picture of the distinction between digital and physical channel sales.

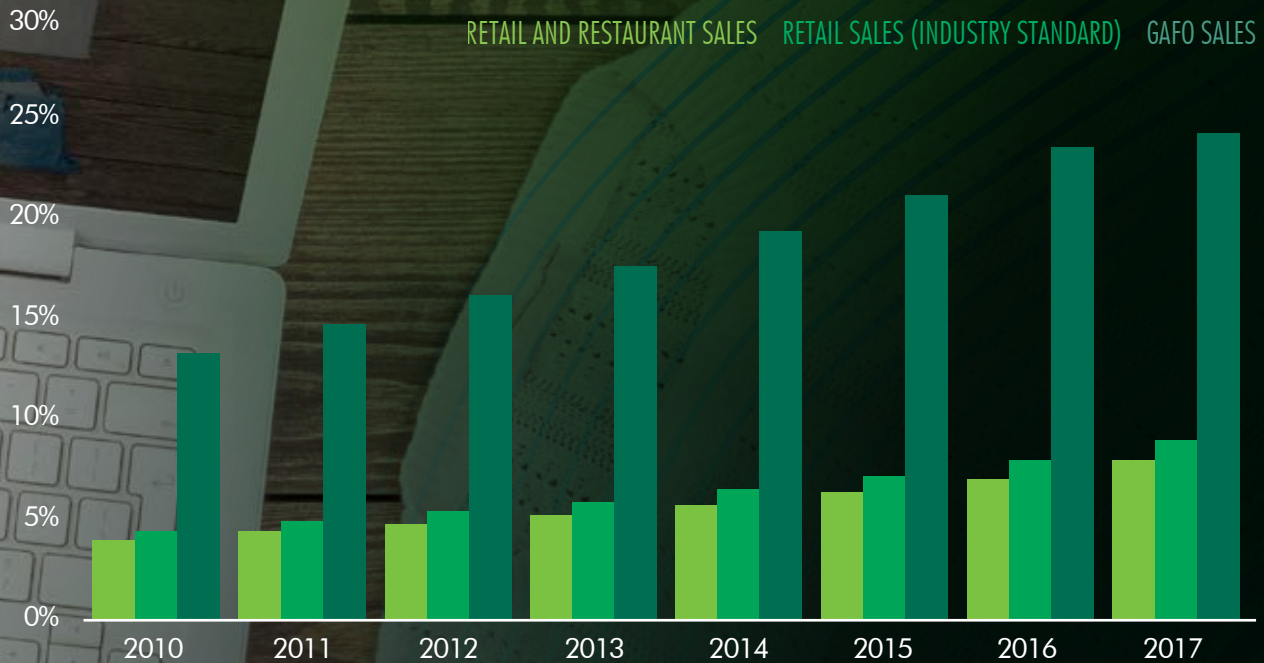
E-COMMERCE AS A SHARE OF RETAIL SALES

The most common method for measuring e-commerce share is by comparing total e-commerce sales (Figure 1) to total retail sales, which includes sales across all categories except restaurants and bars. Using this method, the e-commerce share of total retail sales was 8.9% in 2017 (Figure 2).

However, e-commerce share varies depending on what retail categories are included or excluded in the retail sales figure. For example, if restaurant sales are included in overall retail sales, the 2017 e-commerce share drops slightly to 7.9%. On the other hand, if we isolate GAFO sales (generally considered typical mall category sales), that figure jumps to 26.2%. GAFO includes sales of furniture & home furnishings, electronics & appliances, clothing & accessories, sporting goods, hobby, book & music stores, general merchandise and office supplies, stationery & gift stores.

Outside of the official government statistics, third-party sources may issue e-commerce sales and share estimates based on other methodologies, such as qualitative consumer surveys. When comparing different e-commerce sales and share figures, it's critical to understand exactly what is and isn't included in both the e-commerce and overall retail sales data to obtain the most relevant measurement of e-commerce for your business.

FIGURE 2
E-COMMERCE AS A SHARE OF TOTAL SALES



Note: GAFO includes sales of the following categories: furniture and home furnishings, electronics and appliances, clothing and accessories, sporting goods, hobby, book, and music stores, general merchandise, and office supplies, stationery, and gift stores.

HOW DOES E-COMMERCE VARY BY CATEGORY?

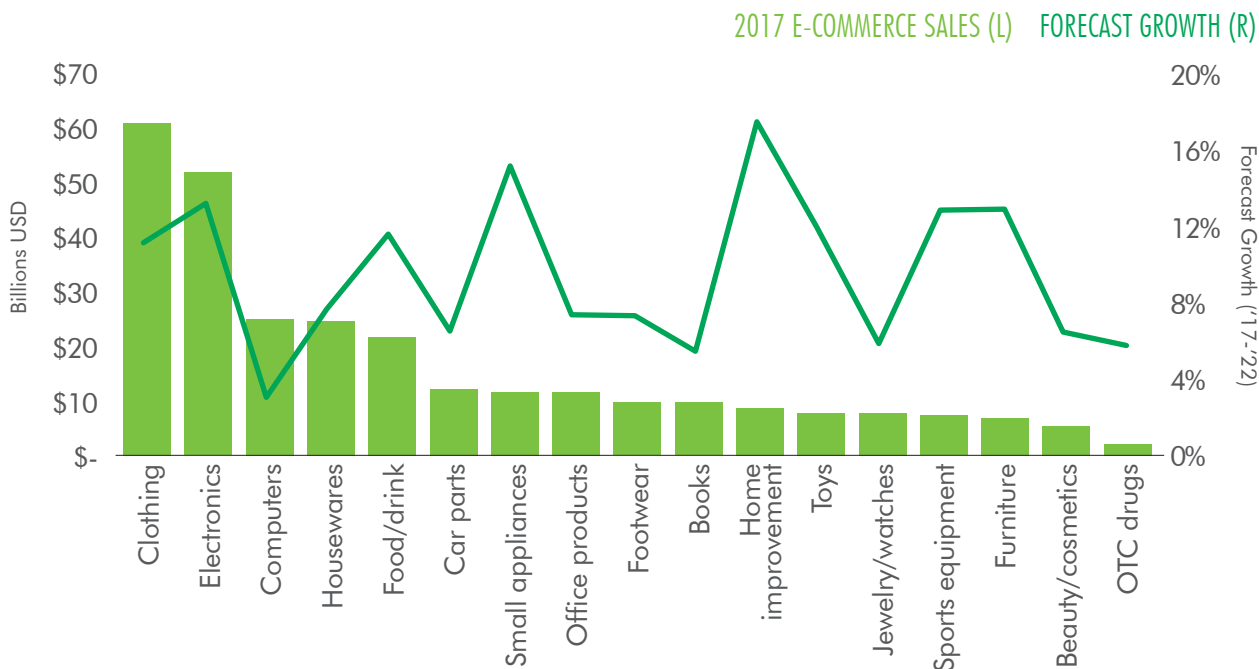
E-commerce retail sales totaled \$453.5 billion in 2017 and have been rising on average 15% a year since 2010, signaling a digital revolution to a traditionally brick-and-mortar sector. Though widespread, e-commerce's impact has varied greatly by retail and product category. Understanding these variations is key to predicting how the industry will evolve in both the short and medium terms, and determining how retailers, landlords and investors shape their growth strategies.

E-COMMERCE SALES BY PRODUCT CATEGORY

One approach to understanding e-commerce variations is analyzing the distribution of online sales by product category.

Of the \$453.5 billion in online purchases last year, the two largest categories were clothing (\$66.5 billion in online sales and 14% of overall e-commerce) and consumer electronics (\$56.3 billion in online sales and 12% of overall e-commerce). Both categories are expected to rise between 12% and 14% by 2022. The fastest-growing categories, however, are home improvement and small appliances (19% and 17% forecast growth by 2022, respectively).

FIGURE 1
SELECT E-COMMERCE SALES BY PRODUCT CATEGORY



Source: Forrester Research, 2018.

E-COMMERCE SHARE BY PRODUCT CATEGORY

Another way to analyze e-commerce variations is what share of each category's sales occur through the online channel (often referred to as e-commerce share). This allows us to understand the level of online penetration in each category.

In 2017, the categories with the highest rates of online penetration were computers (78%), consumer books (66%) and small appliances (49%). Clothing, which had accounted for the largest share of e-commerce retail sales (Figure 1), has a lower-than-average e-commerce penetration rate (22%). The categories with the lowest e-commerce shares included food and drink (3%), home improvement (3%), over-the-counter drugs (6%) and furniture (8%). By 2022, penetration is forecast to rise most in the small appliances, consumer electronics and sports equipment categories.

FIGURE 2 E-COMMERCE SHARE BY PRODUCT CATEGORY

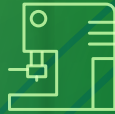
2017 2022



COMPUTERS
78% 89%



BOOKS*
66% 78%



SMALL APPLIANCES
49% 76%



ELECTRONICS
38% 66%



HOUSEWARES
38% 47%



OFFICE PRODUCTS
35% 50%



TOYS
31% 44%



CAR PARTS
26% 30%



SPORTS EQUIPMENT
24% 39%



CLOTHING
22% 31%



FOOTWEAR
15% 19%



JEWELRY/WATCHES
15% 17%



BEAUTY/COSMETICS
9% 11%



FURNITURE
8% 12%



OTC DRUGS
6% 8%



HOME IMPROVEMENT
3% 6%



FOOD/DRINK
3% 4%

*Consumer

Source: Forrester Research, 2018.

REAL ESTATE IMPLICATIONS

E-commerce growth and penetration rates will have a significant impact on retail real estate demand and growth strategies over the next five years.



RETAILERS

Retailers whose product mix is due for high e-commerce growth and penetration rates must proactively adapt omnichannel strategies that facilitate seamless shopping experiences across digital and physical channels. In product areas where consumers are shifting transactions online, retailers must engage shoppers through digital channels and focus on complementary in-store offerings. Some retailers with high e-commerce exposure, such as clothing, may consider integrating more experiential elements into the store, such as food and beverage or services.




LANDLORDS

Landlords must analyze their existing merchandise mix and consider repositioning those that are especially vulnerable to online penetration. Shopping malls particularly face high exposure to soft goods categories with high e-commerce rates and must shift toward lower-penetration categories like food & beverage, beauty and services.



INVESTORS

In valuing retail assets for purchase or sale, investors must closely assess the current merchandise mix to forecast performance and returns. Assets with high e-commerce exposure will likely require merchandise re-positioning, so evaluating lease terms and clauses will be critical.



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REAL ESTATE IMPACT

- **How are retailers adapting stores to omnichannel?**
- **How is e-commerce growth impacting industrial real estate?**

MORE AT [CBRE.US/OMNICHANNELGUIDE](https://www.cbre.us/omnichannelguide)

HOW ARE RETAILERS ADAPTING STORES TO OMNICHANNEL?

The emergence of digital shopping channels has forced retailers to rethink the purpose and format of their physical stores. Most importantly, the rise of online shopping has transformed the store from an obligation to a choice; while the store was one of the only places to access goods and services 15 years ago, it is today one of many.

Though store strategies will and should vary significantly by retail category and brand, there are three major trends of adaptation across the sector. These three strategies, outlined below, are forming a critical part of retailers' wider omnichannel growth strategies.

FOCUSING ON IN-STORE EXPERIENCE

As the physical store shifts from an obligation to a choice, retailers are creating distinct customer experiences to drive brick-and-mortar traffic. From offering in-store services like yoga classes to a rising focus on distinct architecture and design, investment in in-store experience is occurring across all retail categories. Clicks-to-bricks players have been especially adept at providing experience. For example, Trunk Club, which started as an e-tailer, offers “clubhouses” complete with bars and personal shoppers who bring out items for customers to try on in semi-private “living rooms.” Even in the grocery category, where e-commerce penetration has been low relative to other categories, major brands are proactively looking at ways to drive in-store experience through restaurants and bars. Spanish retailer El

Corte Ingles has dedicated entire floors in its flagship to a uniquely branded “Gourmet Experience,” where offerings include high-end spirits and wines, luxury candies, international products and dine-in counters. Saks Fifth Avenue also integrated an 18,000-sq.-ft. luxury food hall into its Miami location, featuring restaurants and a marketplace. This trend is not limited to high-end department stores; apparel retailers like Frank + Oak offer craft coffee and a barbershop in-store, and Capital One is rolling out its large-format Capital One Café concept, providing drinks and financial services.

The emergence of digital shopping channels has forced retailers to rethink the purpose and format of their physical stores; the rise of online shopping has transformed the store from an obligation to a choice.

LEVERAGING STORES FOR DISTRIBUTION

Brick-and-mortar stores have an advantage in last-mile logistics in that they are closer to where people live than the industrial warehouses that serve the distribution needs of e-tailers. Leveraging stores to help fulfill online demand allows retailers to service consumers faster and at lower cost. Many retailers, including major chains like Best Buy, JCPenney and Target, have already leveraged their locations for in-store pickup and returns.

Brands with large store footprints have a distinct advantage in reaching a wider customer base more efficiently. Even so, many large chains are either acquiring or partnering with third-party delivery services to help leverage store networks for last-mile fulfillment. In late 2017, Target announced plans to acquire Shipt, a startup that focuses on flat-rate grocery delivery, for \$550 million. Ikea also announced its purchase of Task Rabbit, which some speculate could be leveraged for on-demand delivery.



DIVERSIFYING STORE FORMATS

The impact of e-commerce varies greatly by location (urban vs. suburban, for example) and even by time of year (holiday vs. summer), forcing retailers to find more agile solutions to their brick-and-mortar strategies. One way retailers are adapting is by diversifying store formats, sizes and features by location. Suburban big-box chains like Target have introduced urban or “flexible-format” concepts that extend their reach into affluent urban markets. Traditional mall anchor Nordstrom also launched its “Nordstrom Local” concept that mostly offers services like freshly squeezed juices, manicures and tailoring services, rather than merchandise. Temporary pop-ups are another format retailers are integrating into their more established real estate footprints to test products and markets with minimal financial commitment.

Though many suggest that retailers are downsizing their store portfolios in response to e-commerce growth, the evidence suggests retailers are instead investing in right-sizing their portfolios, adapting usage, design and formats to best serve the new omnichannel consumer.



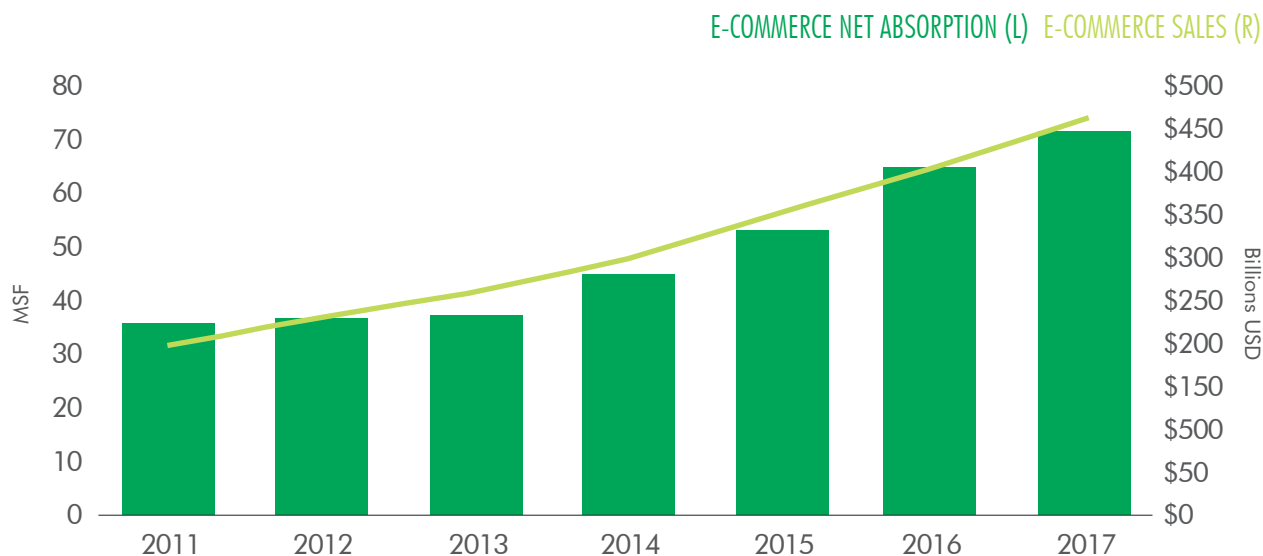
HOW HAS E-COMMERCE SHAPED INDUSTRIAL REAL ESTATE DEMAND?

E-commerce accounts for almost 9% of total retail sales in the U.S. today and has been growing nearly three times faster than brick-and-mortar sales since 2010. The impact of this growth on the supply chain is profound. A hallmark of e-commerce is superior service—a nearly infinite number of choices, fast delivery and flexible return options. This pressure on the supply chain has driven demand for industrial real estate to nearly unprecedented levels and has fundamentally changed the look of the modern warehouse.

HOW MUCH DEMAND IS COMING FROM E-COMMERCE USERS?

It is commonly thought that an e-commerce supply chain requires up to three times more warehouse and logistics space than a traditional brick-and-mortar supply chain. Anecdotal evidence suggests that this is true, but a recent CBRE Research study found that for each incremental \$1 billion growth in e-commerce sales, an additional 1.25 million sq. ft. of distribution space is needed to support this growth. This suggests that of the 236 million sq. ft. that was absorbed in 2017, approximately 30% of it was attributable to e-commerce.

FIGURE 1
**1.25 MILLION SQ. FT. OF INDUSTRIAL DEMAND
FROM EACH \$1.0 BILLION IN E-COMMERCE SALES**

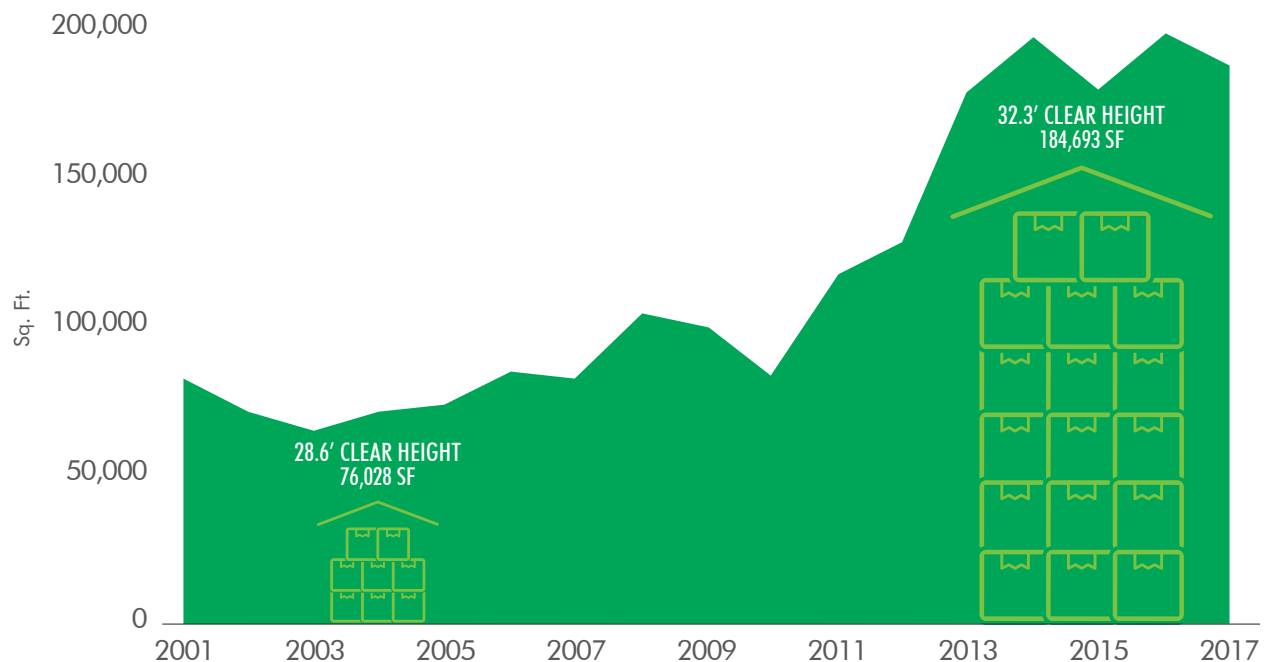


Source: Forrester Research, CBRE Research, 2018.

HOW IS E-COMMERCE AFFECTING BUILDING DESIGN?

Demand for efficient logistics space that facilitates quick movement of goods to consumers has necessitated design of new warehouses that are larger in size and height. The average new warehouse in the U.S. increased by 108,665 sq. ft. (143%) in size and 3.7 feet in height when comparing high development activity periods in 2012-2017 and 2002-2007. Distribution markets that serve major population centers and have land for new warehouses saw building sizes increase the most, including Atlanta, the Inland Empire and Cincinnati. Rapidly growing e-commerce sales are the primary driver of this trend, and markets lacking sufficient modern logistics facilities have further expansion potential ahead to keep pace with this rising demand.

FIGURE 2
U.S. AVERAGE NEW WAREHOUSE BUILDING SIZE



Source: CBRE Research, CBRE Econometric Advisors, 2017.





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