Industrial Impact series

If you build it - will they come?

The effect of e-commerce fulfillment
With e-commerce fulfillment being one of the strongest dynamics driving industrial real estate demand, the resulting need for warehouse labor has also increased dramatically. This, combined with a decreasing unemployment rate, has forced up labor costs and caused seasonal shortages for many operations around the country.

What happens when the next e-commerce deal keeps putting pressure on a local pool of labor? How are site-selection decisions impacted or supply-chain nodes changed? Are other tenants driven out to secondary markets?

Real estate growth of e-commerce fulfillment
From 2010 to 2014, e-commerce was the third most active industrial sector, accounting for 16.1 percent of all "big-box"* transactions nationally, just behind traditional retail and consumer non-durables (both with 16.7 percent). However, over the last two years, not only has e-commerce become the most active sector (22.5 percent), but the gap among the top three has widened significantly (3PLs: 15.2 percent; consumer non-durables: 12.1 percent). Furthermore, traditional retail dropped to fourth (10.4 percent) as pure-play e-tailers and omnichannel retailers continue to build out their logistics footprint.

Initially, the bulk of this e-commerce leasing activity took place in major MSAs like Central Pennsylvania, Dallas–Fort Worth and the Inland Empire. While these larger markets remain very active today, there is a growing shift to secondary Midwestern markets. MSAs like Indianapolis, Columbus, Cincinnati and St. Louis have all seen a spike in e-commerce deals over the past 24 months. Each now ranks in the top 10 nationally. Indianapolis, in particular, has seen the e-commerce sector account for 61.2 percent of "big-box" activity during this time frame. While central location is a major factor in the rise of these Midwestern cities, so too are e-fulfillment labor demand and wage implications.

Despite significant automation, the e-commerce industry's effect on demand for labor has been magnified by its heavy employee counts and severe seasonal spikes as compared to nonfulfillment-driven operations. More traditional warehouse facilities, which replenish retail stores and distribute wholesale goods, have an average employee count of one per 1,500–3,000 square feet. Meanwhile, large-scale e-fulfillment operations typically have an employee count of one per 700–1,000 square feet. **As a result, e-commerce-focused leasing can drive local demand for labor at a rate two to three times that of traditional warehousing operations.**

Since the global financial crisis, the Federal Reserve has pursued an aggressive low-interest-rate policy to drive unemployment lower and wage growth higher. With the economy now at the tail end of this policy, the unemployment rate has dipped to 4.7 percent. As the economy reaches full employment, wage growth is expected to increase as employers compete for qualified labor. The rise of e-commerce and the need for large-scale distribution facilities have exacerbated this effect in many major industrial markets. A dwindling supply of labor has forced traditional warehouse and distribution employers to compete with large fulfillment operations, which often can offer well-above-average hourly wage rates.

Labor market constraints

The combined impact of considerable leasing activity from e-commerce-related operations and a constrained supply of available labor has increased wage rates for warehouse labor at a faster rate than any other occupation. On average, industrial markets with elevated levels of e-commerce leasing activity have seen median wage rates for laborers and freight stock employees increase by 5.8 percent from 2013 to 2015; meanwhile, in the same areas wage growth for all occupations only increased 2.7 percent.

Wages increase 2x
In particular, laborers and freight stock employees in the Indianapolis and Dallas–Fort Worth MSAs experienced the largest median wage growth between 2013 to 2015, with a jump of 6.2 and 6.3 percent, respectively, while wage growth for all occupations over the same time frame only increased 0.8 percent and 3.7 percent, respectively. In addition, the Inland Empire has seen the largest comparative increase from 2010 to 2015, with the median wage for laborers and freight stock employees increasing 8.2 percent from 2010 to 2015 but only by 4.6 percent for all occupations.

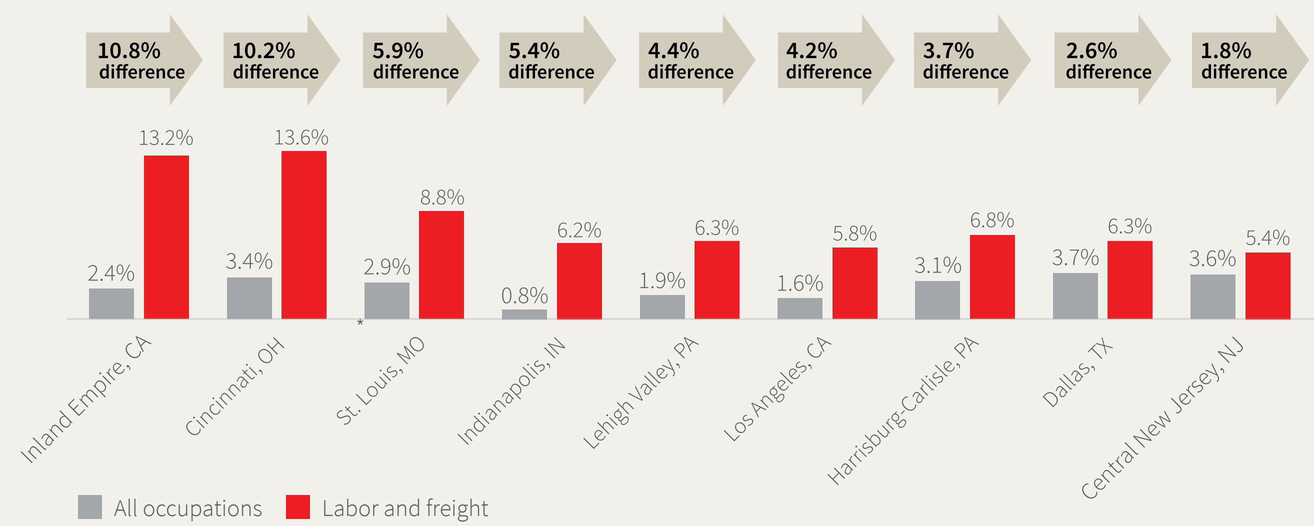
Expect the rise of e-commerce and the complexities coming from heightened consumer delivery demands, the resulting demand for industrial facilities with atypically high employee counts has constrained available labor. With "big-box" leasing around the country continuing to flourish and unemployment rates steadily reaching new lows, continued wage growth for warehouse associates is expected to outpace many other employment sectors, putting upward pressure on overall total landed costs.

To be successful in these market conditions, going forward:

- **Benchmark "who you are" as an employer**
- **Access predictive labor analytics to see "who will you become" and how fast**
- **Understand both the science (desktop data) and art (in market experiences) of each labor market**
- **Evaluate technologies (automation, LMS, etc.) to improve productivity**
- **Prepare for change today**

*"Big-box" leasing includes all leases signed of at least 500,000 square feet or greater.

Industrial occupation wage growth vs. overall occupation wage growth
Top active e-commerce markets



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