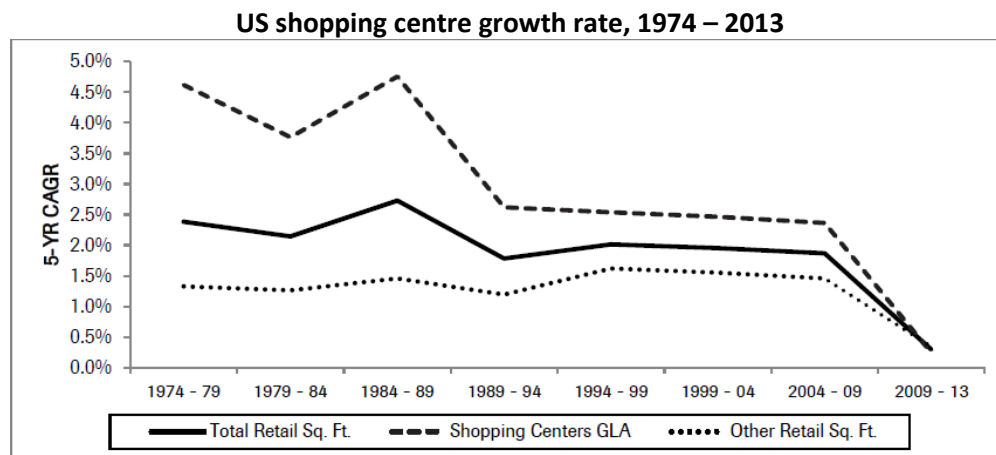


# Online Shopping a Boon for Logistics REITs

By Grant Lowton, CFA

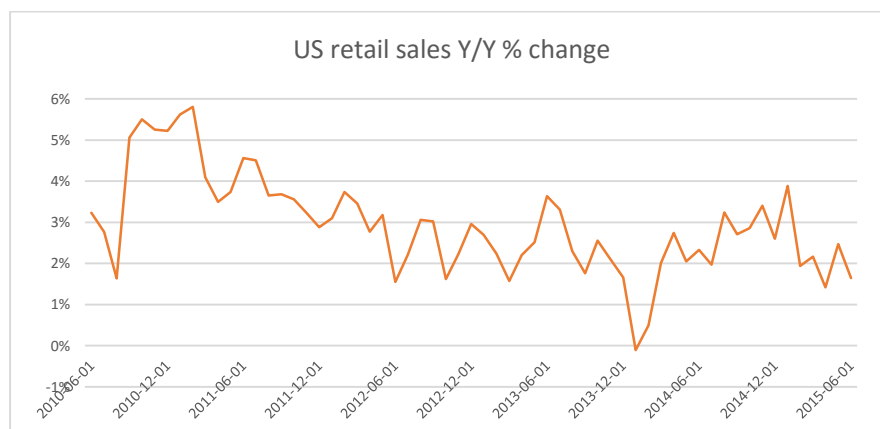
It is a familiar notion that online shopping has made certain purchases more convenient. This has amplified the need for some companies to raise their web presence in order to gain competitive advantage, or even just to remain relevant. *Notably though, it has also increased the need for the warehousing and distribution of merchandise. This in turn makes a compelling case for long term investment into Logistics REITs.*

For decades, the rate of US shopping centre gross lettable area (GLA) growth was robust. As suburban population density increased and purchasing power thrived, retail landlords strategically positioned themselves to benefit from this. However, over the last few years there has been a decrease in the rate of shopping centre growth, as seen in the chart below.



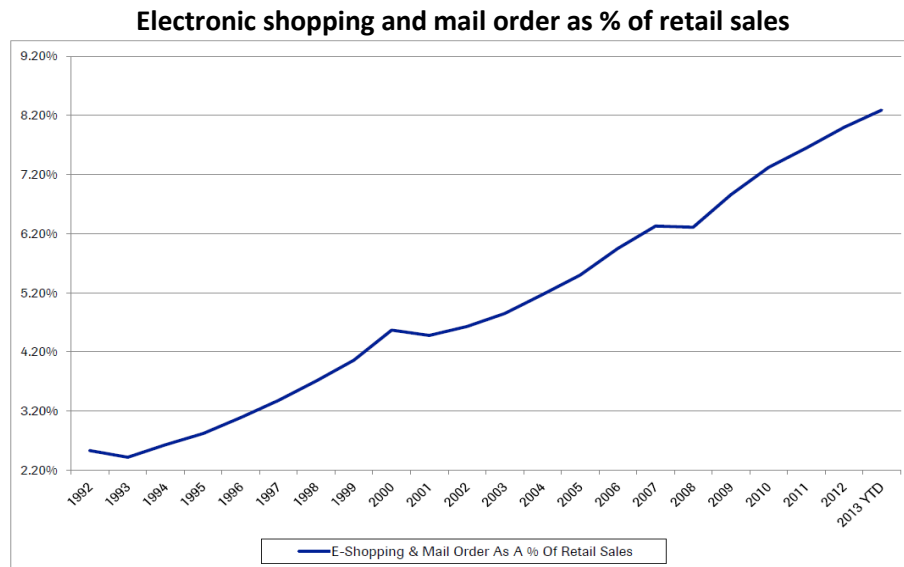
Source: ICSC, Cowen and Company

Notwithstanding the fact that shopping centre growth has almost ground to a halt over the last few years, retail sales growth has been steady, as evidenced by the following graphic.



Source: Thomson Reuters Datastream

The disparity in shopping centre growth versus retail sales growth can to some extent be attributed to the increase in online shopping relative to total retail spend. The following chart reveals an interesting trend.



Source: US Census Bureau, Cowen and Company

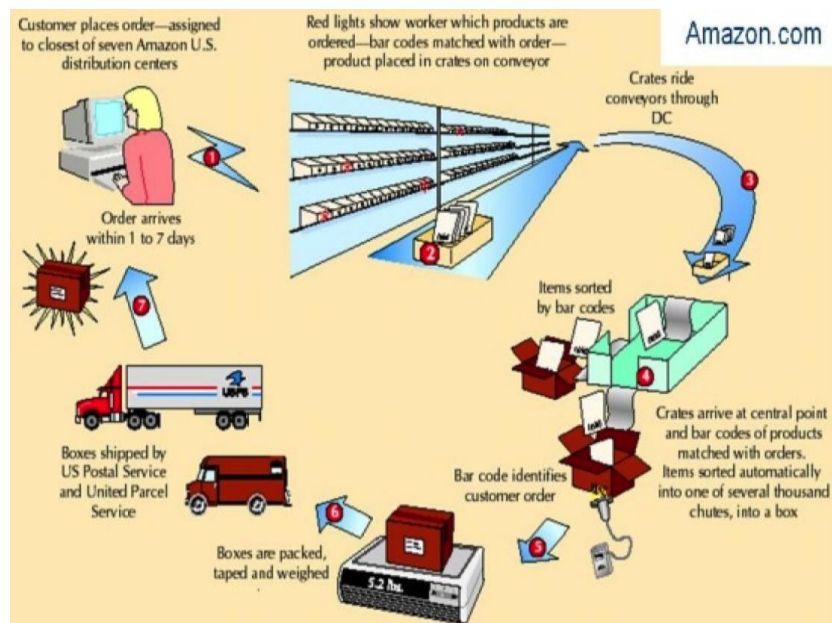
Albeit off a low base, it is clear that an increasing proportion of retail spend is occurring through online channels.

According to research by Cowen and Company, the sharp decline in retail development over the last few years may be more than a transient blip. Increases in GLA are likely to remain depressed over the foreseeable future. Reasons for this include:

- Higher market penetration has moderated the necessity for significant surges in retail space.
- Suburban centres are largely landlocked, making further expansion spatially challenging.
- *Online shopping has somewhat obviated the need for physical stores.*

*In addition to decreasing the need for physical stores, increasing online shopping also has supply chain ramifications, as virtual purchases necessitate warehouse storage as well as adequate distribution capabilities.*

The chart below illustrates the flow of goods in the supply chain from online order receipt on a website such as Amazon.com, to the point of delivery to the customer.



Source: [www.akitarescueoftulsa.com](http://www.akitarescueoftulsa.com)

A REIT that is benefitting from the shift in consumer purchasing behaviour is Prologis. It is a global logistics and distribution operator that provides essential warehousing and distribution capabilities, key components of the online retail supply chain.

A crucial aspect of Prologis' strategy is to own and operate facilities near main seaports, airports and highway interchanges. This calculated positioning allows them to most profitably store and distribute goods to customers whose businesses are linked to global trade and who depend on the efficient movement of goods through the global supply chain.

*The secular shift towards online shopping is forecast to perpetuate the strong demand cycle for logistics REITs. This makes a compelling case for long term investment into this REIT sector and hence Prologis warrants an allocation in the Reitway BCI Global Property Fund. [REITWAY](#)*

For more information about the Reitway Global Property Funds, please visit our website at [www.reitwayglobal.com](http://www.reitwayglobal.com) or contact us at 021 551 3688.