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Why $70B spike in holiday e-commerce returns is both good, bad for St. Louis

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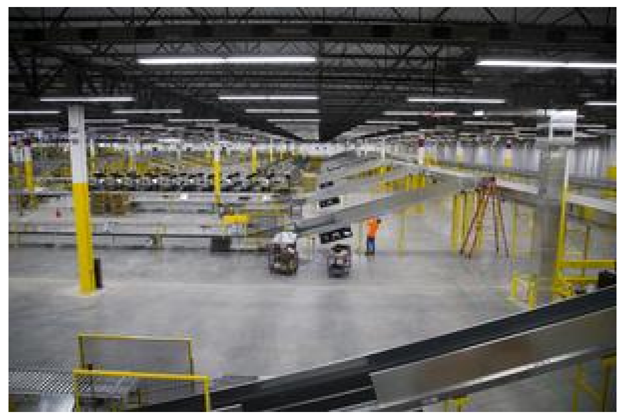

DILIP VISHWANAT | SLBJ

The outgoing section of the Amazon Robotic Fulfillment Center

Nationwide e-commerce returns from the holiday season are slated to hit a record $70.5 billion, results that could spell both promise and frustration for the St. Louis industrial market.

That figure, representing the fourth quarter of 2020, marks a 73% spike from the previous five-year average. That surge is largely attributed to a pandemic-driven rise in online sales that's projected to reach $235 billion for the year, up 40% from 2019, according to a new report from commercial real estate firm CBRE and Optoro.

The growth in e-commerce is a good sign for industrial real estate developers and construction companies.

Locally, about 1.7 million square feet of industrial space was under construction by the end of 2020's third quarter, a year over year decline from 2019, when 4.4 million square feet was under construction, according to the most recent market data from CBRE. The slowdown in construction, real estate experts say, was due to a belief that St. Louis' industrial market was becoming overbuilt prior to 2020. But now with e-commerce sales skyrocketing, there's renewed interest in construction.

Brian Bush, senior vice president of CBRE's St. Louis office, said e-commerce-driven demand could prompt developers to reconsider areas like parts of St. Louis County once thought to be too saturated for new industrial projects.

"I think you're seeing an evolution in how companies are responding to e-commerce," said Brian Bush, senior vice president at CBRE in St. Louis. "The tailwinds from e-commerce, and now Covid to some extent, has propelled the industrial market even further. .. (It means) developers will be staking out territory and exploring areas in St. Louis County that maybe they wouldn't have considered a couple years back."

Yet, the unprecedented growth in e-commerce, and e-commerce returns, is also causing "enormous stress" to distribution networks in St. Louis and across the U.S., according to the CBRE and Optoro report.

"Personally, I'm concerned about the St. Louis market from a transportation" perspective, said **Steve Pandolfo**, director of LTL pricing and procurement for St. Louis-based third party logistics firm **Sunset Transportation**.

"The pandemic accelerated e-commerce's retention of new customers for not only Amazon, but for Kohl's, Walmart, Instacart ... anything that uses delivery. But the problem for 2021 is that transportation was strapped before; now it has to handle this super influx," he said.

The industry is specifically in need of labor. The transportation sector has long had a driver shortage, and new projections say the industry could be short 160,000 drivers by 2028. The issue will continue place stress on the system's ability to deliver products on time.

"If you were used to a truck carrier posting a 95% on-time percentage, that's not going to be the case anymore," he said.

A shorthanded trucking industry overloaded by e-commerce demand could have ripple effects throughout other industries, like the nation's manufacturing supply chain. It could also bring more attention to the sector's failure to rapidly adopt new innovations that could help the issue, Pandolfo said.

An unexpected delay of a powertrain to an auto manufacturer, for example, could shut down the rest of the production of the vehicle. But that automaker could better prepare for that circumstance if the transportation sector employed a broader use of tracking technology, allowing them to update recipients of delivery delays, Pandolfo said.

"What I think 2021 is going to show us is how big of a deal visibility tech is," he said.

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