

IMPACT OF E-COMMERCE BOOM ON
**COMMERCIAL
REAL ESTATE**



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It is no secret within the commercial real estate industry that accelerated e-commerce adoption shifted into high gear in the wake of the ongoing novel Coronavirus crisis, when nonessential stores shut down and people started to work remotely to curb infection spread. This, as a ripple effect, has undoubtedly left a negative imprint on both the supply and demand pillars of the commercial segment.

Spanish apparel retailer Zara, for example, will close as many as 1,000-1,200 stores worldwide over two years and focus on digital growth instead, after the clothing giant's sales went down 44% from last year, in light of the chaos wrought by the crisis.

As a matter of fact, online sales increased by 40% in the US between May 26 and June 1, when compared with the period between February 24 and March 1, according to Signifyd Inc. As such, there has been a major impact in the way goods get to consumers, market experts agree.

The surge in demand for online goods during the pandemic highlights the need to rethink aspects of supply chain management, JLL Americas Industrial President Craig Meyer confirmed in a report published back in June, emphasizing that retailers may seek to bolster inventories of higher-demand products from now on.

With so many ways to get products to consumers, e-commerce supply chain operations require more warehouse and logistics space, typically three times more than a traditional brick-and-mortar supply chain. A recent CBRE Research study found that for each incremental USD 1 bn (EGP 15.7 bn) in growth in e-commerce sales, there needs to be an additional 1.25 mn square feet of distribution space to support the channel growth.

Speaking of local and regional markets, the commercial real estate sector is adapting to these shifting trends and reevaluating what a valuable property truly is.

E-Commerce: Today's New Normal

There are many impressive examples for the success of e-commerce, here are some of them:

Egypt

According to the United Nation Conference on Trade and Development's (UNCTAD) National E-Commerce Strategy for Egypt, the country's e-commerce volume is projected to reach almost USD 1.9 bn (EGP 30 bn) by the end of the current year, at an annual growth rate of 35%.

In recognition of the essentiality to digital transformation, the Egyptian government has earmarked EGP 12.7 bn in the FY 2020/21 budget to accelerate the implementation of e-projects. Further, the government intends to provide

72 electronic services via its digital gate, according to Khaled El Attar, head of Information Infrastructure Sector at the Ministry of Communications and Information Technology (MCIT).

Not only that, but in a bid to further reinforce e-commerce in Egypt, the state plans to launch a new unit for the taxation of e-commerce companies, Finance Minister Mohamed Maaat told CNBC Arabia last September. The set-up procedures are expected to commence in 2021. Beyond that, Maaat earlier affirmed that there will be no new value-added tax (VAT) imposed on products sold through digital or traditional sales platforms this year.

On the other end of the spectrum, e-commerce has helped in creating more job opportunities. According to El Sahy, Souq has increased the number of its employees by more than 30% and expanded its warehouses and distribution points to keep pace with the increasing demand for e-commerce during the pandemic.

With an eye on the real estate sector, Minister of Justice Omar Marwan has confirmed that roughly 40% of Egypt's real estate registration offices have been digitized, with more in the pipeline as part of the state's digital transformation efforts to achieve financial inclusion.

This came during Marwan's meeting with Prime Minister Mostafa Madbouly, where several issues have been raised including the inadequacy of registry offices nationwide, which are often jam-packed, in addition to speeding up the digitization process in light of the current COVID-19 pandemic, according to a Cabinet statement in July.

UAE

UAE's Dubai is one the superior countries in the implementation of e-commerce through its Dubai CommerCity (DCC) project. Spreading over 2.1 mn square feet, DCC stands as the first and only dedicated e-commerce free zone in the MENA region, coming with investments of AED 3.2 bn (EGP 13.7 bn).

DCC helps global and regional brands to set up and operate their businesses via its unique e-commerce ecosystem. According to DCC, the MENA region's e-commerce retail market will witness an expected growth rate by 20% during the upcoming 5 years, reaching AED 95.5 bn (EGP 408 bn) in 2022.

GCC countries are expected to contribute 43% of the Middle East and Africa (MEA) region's e-commerce retail market by 2022. Not only that, but also the Middle East is expected to share by USD 26 bn (EGP 408 bn) and the UAE by

USD 4.6 bn (EGP 72 bn) in the e-commerce retail market by 2022. That is why DCC is deemed to jumpstart a brand-new non-traditional economy, based on innovation and smart transformation, as highlighted in the UAE press.

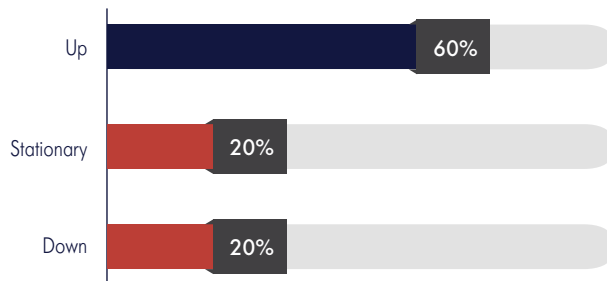
Real Imprint of E-Commerce on Egyptian Market

Since it is important to comprehend the impact of e-commerce on the Egyptian market, Invest-Gate's R&A team surveys 20 local property developers to highlight the influence gauge of e-commerce and indicate how its growth is not bad news after all for the commercial real estate scene.

Impact on Doing Business

In the face of the ongoing technological boom, according to 60% of surveyed developers, demand for commercial real estate will not drop. Besides, 50% of respondents see demand for warehouses on the rise. Therefore, it is safe to say that e-commerce will not replace the existence of the commercial segment, but it will rather reshape and revolutionize the way businesses operate.

EXPECTED DEMAND FOR COMMERCIAL UNITS



EXPECTED DEMAND FOR WAREHOUSES

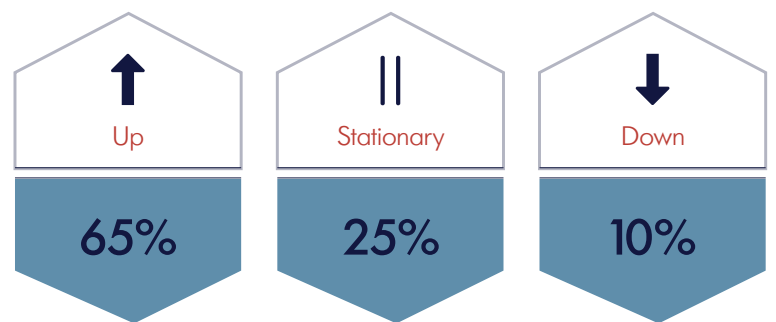


Meanwhile, when asked if e-commerce adoption will affect prices of commercial properties, 65% assume an increase in prices, whereas the remaining 25% see no changes whatsoever.

As for warehouses, half of the surveyed developers anticipate prices of logistics real estate to remain stationary, regardless of the pandemic disruptions and new market needs. The other half, however, sees price hikes in the coming period.

This means that even if the way consumers think about the entire shopping experience did shift toward digitization, this will not change the main facet of the market on owning a commercial unit or a warehouse for selling and storing purposes.

EXPECTED PRICES OF COMMERCIAL UNITS

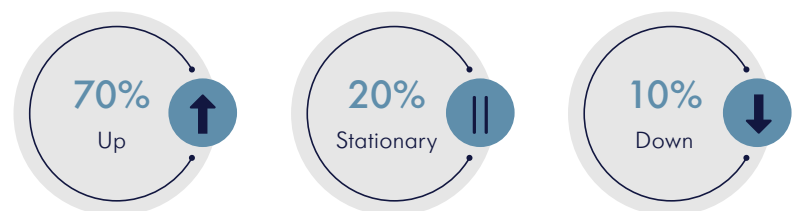


EXPECTED PRICES OF WAREHOUSES



When it comes to payment plans and the influence of adopting e-commerce on rents and installments. The majority of our surveyed developers (or 70%) sees an upward trend in the upcoming period. On the other hand, 20% of respondents assume the ratio of rents and installments will not be affected by these technological tools.

PAYMENT METHODS (RENT/INSTALLMENTS)



Policy Recommendations

Based on the above findings, it is quite evident that e-commerce is today's new normal. According to JLL's global supply chain and logistics consulting leader Rich Thompson, e-commerce has fundamentally changed the way consumers buy as well as their expectations for delivery, making it one of the biggest game-changers to supply chain management since the introduction of the world wide web and the internet.

In Egypt, e-commerce sales have amplified by 80% in light of the Coronavirus shutdowns, Jumia CEO Hisham Safwat previously told Amwal Alghad. He explained that the level of awareness among Egyptians is growing as they better understand how to order, track shipments, and deal with digital channels when buying online.

Stay-at-home orders prompted many people to shop online for items they had not previously such as groceries, and many are expected to retain the habit. This shift in consumer behavior is driven by new expectations about the meaning and purpose of shopping. The general public now has endless options to consider when making a purchasing decision.

Interactions via e-commerce platforms will not be lower than 50% in near future, which is seen as a radical change as pre-COVID 19 only 8% of internet users used to depend on e-commerce platforms, the Institute of National Planning previously indicated.

Case in point: When looking at online platforms in Egypt, e-commerce platform Souq has witnessed a boom in the number of clients and purchasing order amidst the pandemic, Omar El Sahy, the company's CEO, earlier revealed. Adding to this, El Sahy remarked that e-commerce has become the main tool for shopping in Egypt.

With people spending more time indoors to be shield from the pandemic, the National Telecommunications Regulatory Authority (NTRA) uncovered that home internet usage rose 92% YoY in summer 2020. Likewise, the number of shoppers through the various online websites and applications has reached 200,000 shoppers, and the number of shopping visits hit 1.5 mn visits.

The threat of e-commerce on brick-and-mortar retailers is not a new topic, but the pandemic may have accelerated the discussion. CBRE Group, the world's largest commercial real estate services company, earlier stated that e-commerce sales have been growing three times as fast as brick-and-mortar sales since 2010.

But as e-commerce sales continue to take up more of the retail/commercial pie in Egypt, specifically amid the COVID-19 disruption, markets lacking sufficient modern logistics facilities will capitalize on expansion potential to keep up with the growing demand, while also keeping the market stable.

That is why 70% of our surveyed developers plan to provide credit facilities to ease the payment burden of either rents or installments, and thus, support the commercial market in bouncing back on track. Moreover, 15% of respondents intend to establish more commercial units to meet market demand, whilst another 5% will cut commercial areas and increase those of warehouses.



PLANS FOR CHANGING CONSUMER BEHAVIOR



All in all, Invest-Gate's R&A team found that the added convenience and reduced cost afforded to consumers is shifting the demand for many goods and products to the online marketplace. Accordingly, Egyptian real estate developers, who own/rent several big-box stores with high-price tags, are feeling the hurt and are desperately trying to innovate their business models to stay relevant.

The good news is that e-commerce does not pose a threat to a "retail apocalypse," at least for Egypt. Instead, the complexities of direct-to-consumer facilities require either new construction or renovations. The dynamic behaviors of today's consumer present a window of opportunity for commercial investors who can spot the changing trends and take advantage of them. It may well be argued that as e-commerce continues to grow and change, so too must the modern warehouse.

But with consumers demanding more from their visits to brick-and-mortar stores, real estate investments should focus on unique property types that offer a little flair in the shopping experience. It is no longer about the sales per square foot in the retail business, but experience per square foot.