

Just Don't Call It A Warehouse: Repurposing Unused Retail Spaces To Support E-Commerce

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Bisnow

Reimagining Real Estate

In our Q&A series, "Reimagining Real Estate," attorneys from the firm's market-leading real estate practice talk about how they see the pandemic reshaping commercial real estate in 2021 and beyond. This month, we partnered with Bisnow and JLL to explore the opportunities and challenges of converting retail space to industrial use.

Covid has accelerated drastic changes in consumer behavior and nowhere is this more visible than on America's retail landscape, where more than 10,000 brick-and-mortar stores are expected to close their doors in 2021.

Rather than driving to their local mall, many consumers are doing their shopping online. Global real estate and investment management firm JLL has projected that e-commerce sales could reach \$1.5 trillion by 2025. This would increase demand for industrial real estate by an additional 1B SF, JLL estimated.

To service all of those online sales, retailers are exploring converting unused retail spaces to new uses such as distribution hubs.

"Vacant retail space is often geographically desirable for this use," said Seth Geldzahler, senior managing director at JLL. "Many retailers are trying to keep down the cost of the expensive last mile by increasing the number of delivery hubs and reducing transportation distances. Additionally, increased online demand means companies need increased inventory, which is pushing them to expand their warehouse footprints."

David J. Rabinowitz, director at law firm Goulston & Storrs with widespread experience serving the retail industry, noted that many surviving retailers are looking to downsize their excess space, which also contributes to the trend.

"This means landlords are left to either subdivide their existing space or relocate these retailers to a new, smaller space within the center, which will leave their prior space vacant," he said. "There are also fewer retailers to gobble up vacant space."

Bisnow spoke with Geldzahler and Rabinowitz about the opportunities and challenges of converting retail space to industrial use.

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