

E-Commerce Sales:

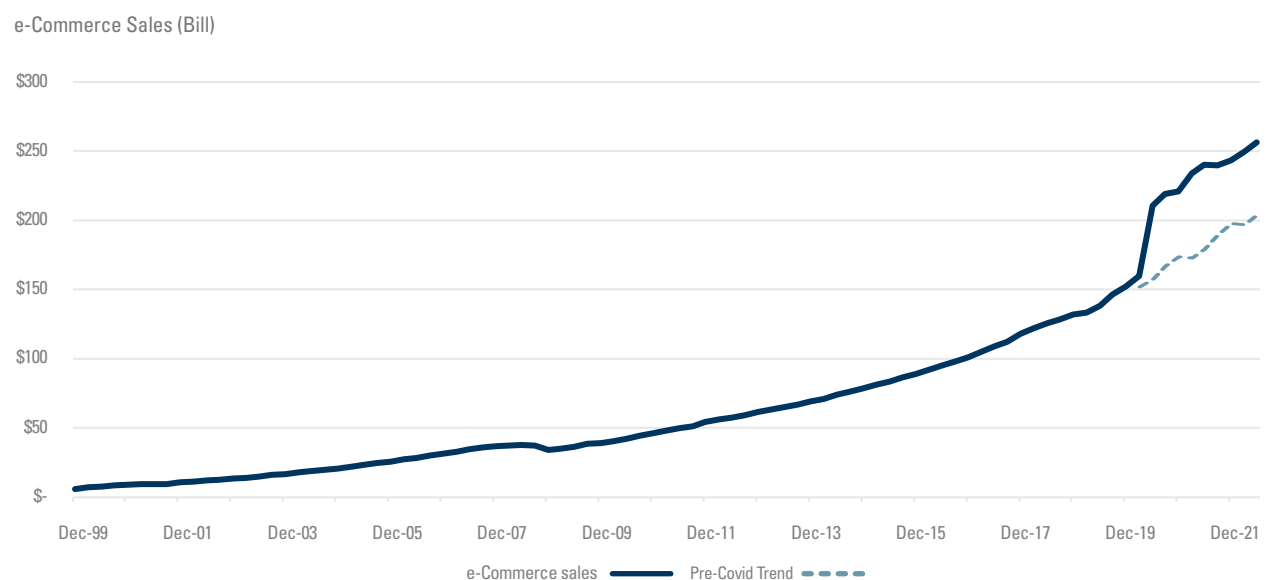
A “Prime” Example of Permanent Pandemic Behavior Shift?



The growth of e-commerce was a secular tailwind in the decade leading up to 2019. Total U.S. e-commerce sales grew ~300% over this period, from \$152 billion to over \$600 billion annually, with double-digit growth each year. As of Q4 2019, total U.S. e-commerce sales made up 11.1% of all retail sales.¹ At the onset of the pandemic, e-commerce sales jumped to 16.4% of all U.S. retail sales.² We believe the pandemic accelerated the adoption of e-commerce sales and has resulted in a permanent shift in the trendline.

- » **Exhibit 1** illustrates actual U.S. e-commerce sales since December 2019 vs. the pre-pandemic trendline.³ As shown, we saw a pronounced vertical shift in the first half of 2020, and then normal growth resumed at this new level.
- » Headlines highlighting the decline in e-commerce as a percent of sales back to 14.5% as of Q2 2022 are true but slightly misleading. The 16.4% was due to both a numerator effect (e-commerce sales), which have persisted, and a denominator effect; total retail sales which fell over 20% in April 2020; 14.5% is also well above the 11.1% level pre-pandemic. In addition, we believe that headlines earlier this year regarding an Amazon pullback were overblown (see our paper “The Current State of U.S. Industrial Real Estate”, Summer 2022).
- » Using an estimate of 1.25 million square feet of additional distribution space required for an incremental \$1 billion in e-commerce sales,⁴ **this bump of ~\$200 billion in annual e-commerce sales suggests an additional 250 million square feet of industrial space was needed to support the incremental e-commerce penetration.**

EXHIBIT 1: Quarterly U.S. e-Commerce Sales, Q4 1999 – Q2 2022



Source: U.S. Census, USAA Real Estate Research

1. U.S. Census.
2. Q2 of 2022
3. Pre-pandemic trendline estimated at e-commerce sales continuing at average annual growth rate from 2015 to 2019.
4. CBRE Global E-Commerce Outlook 2021.

Important Disclosures

This research paper represents the opinions and recommendations of USAA Real Estate which are subject to change without notice. These materials are for educational purposes only and should not be considered a recommendation to purchase any investment product. USAA Real Estate may make investment decisions that are not consistent with the recommendations or views expressed herein. As with all investments, there are inherent risks in investing in real estate.

USAA Real Estate is the brand name that applies to its affiliates and subsidiaries, including US Equity Advisors, LLC ("Equity Advisors"), the institutional investment management business of USAA Real Estate, and Square Mile Capital Management LLC ("Square Mile"). USAA Equity Advisors and Square Mile are registered with the U.S. Securities and Exchange Commission ("SEC") as investment advisers. Registration with the SEC does not imply a certain level of skill and training.

Certain information has been obtained from sources and third parties. USAA Real Estate does not guarantee the accuracy or completeness of these materials or accept liability for loss from their use. This research paper contains forward-looking statements which include statements, express or implied, regarding current expectations, estimates, projections, opinions and beliefs of USAA Real Estate, as well as the assumptions on which those statements are based. Words such as "believes", "expects", "endeavors", "anticipates", "intends", "plans", "estimates", "projects", "assumes", "potential," "should" and "objective" and variations of such words and similar words also identify forward-looking statements. Such statements are forward-looking in nature and involve a number of known and unknown risks, uncertainties and other factors, and accordingly, actual results may differ materially and no assurance can be given that USAA Real Estate will achieve the returns from its investments that it is targeting.

Prospective Investors should understand that any such information may not have been independently verified by USAARE. Except where otherwise indicated, the information provided herein is based on matters as they exist as of the date of preparation and not as of any future date and will not be updated or otherwise revised to reflect information that subsequently becomes available, or circumstances existing or changes occurring after the date hereof.

Although forward-looking statements contained in this presentation are based upon what management of the Company believes are reasonable assumptions, there can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. The Company undertakes no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change except as required by applicable securities laws. The reader is cautioned not to place undue reliance on forward-looking statements.