

# With warehouse space in short supply, retailers need to rethink their inventory strategies

Article

**The news:** Warehouse vacancy rates are at record lows as retailers struggle to offload excess goods while ordering more inventory to avoid being caught short during the holiday shopping

season.

**A closer look at the numbers:** The vacancy rate for US warehouses is currently hovering around 3%, per Warehouse Quote's Warehouse Pricing Index (WPI), the lowest it's been in decades.

- Ten years ago, that number was 7.7%, per CBRE.
- The warehouse market is even tighter in port areas with vacancy rates below 1%, according to the WPI.
- High demand and constrained supply have caused rents to rise 20% year-over-year (YoY) in Q2. Prologis, one of the largest warehouse operators, reported an 8.5% increase in rents between Q4 and Q1 alone.

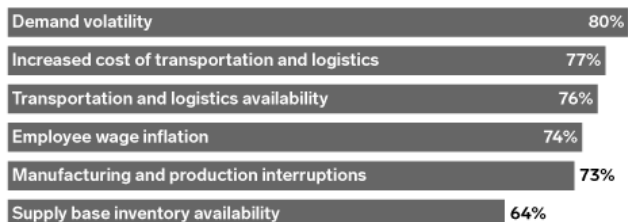
**How we got here:** Many retailers find themselves caught between a rock and a hard place: On the one hand, supply chain delays caused many to stock up early to avoid empty shelves and disappointed shoppers. On the other hand, softening consumer demand for items like consumer electronics, furniture, and appliances has left many with excess inventory they can't get rid of.

The situation will only get worse. Many retailers ordered inventory for the holiday season well in advance to circumvent potential delays (inadvertently creating another supply chain bottleneck). But with warehouse space at a premium, getting goods off ships and into stores may be a logistical nightmare.

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### Supply Chain Disruptions According to Chief Supply Chain Officers (CSCOs) Worldwide, Q1 2022

% of respondents



Note: in the past 2 years  
Source: IBM Institute for Business Value, "The Resilient Digital Supply Chain" commissioned by Celonis, April 28, 2022

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**Some will win:** The tight warehouse market is a boon for operators like Prologis that can use the situation to raise rents virtually unchecked. But it's also an opportunity for large retailers with their own extensive warehouse networks to flex their muscle.

- For example, **Amazon's** pandemic-fueled overexpansion may have added billions to its balance sheet for the past two quarters, but adding warehouse capacity before the shortage gives it an additional edge over competitors.
- The ecommerce giant also has the option to [sublet excess space to other companies](#)—a potentially lucrative source of income.
- **Target** is also in a position to benefit, thanks to its decision to secure holding capacity near US ports as part of its [aggressive inventory reduction strategy](#) before other retailers could catch on.

**...while others struggle:** As more retailers move from a “just in time” mindset to a “just in case” one, inventories—and warehouse costs—will continue to pile up.

- **S&P 500 companies had \$1.1 trillion in inventory on hand in Q1**, up 16% YoY, per S&P Global Market Intelligence data reported by The Wall Street Journal.
- Companies including [Walmart](#), [The Gap](#), and [Bed Bath & Beyond](#) are having to slash prices to get rid of excess goods, eating into their bottom lines.

**Looking ahead:** The easiest way out of the warehousing shortage is for operators to add more space. Prologis says **it will take another 800 million square feet of space to alleviate the current squeeze**—but it's not so simple. Shortages of steel and other construction materials are hampering expansion plans.

As the need for warehouse space grows more acute, retailers should be looking for ways to optimize their existing facilities to store more products and improve worker efficiencies. They should also maintain an aggressive approach to inventory reduction, either by cutting prices significantly to encourage shoppers to spend or by selling unwanted goods to off-price retailers or liquidators.

- With consumer spending under strain, retailers should consider reducing or even canceling orders from suppliers to keep the cycle from repeating itself.

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