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Amazon To Roll Back Capital Expenditures as Consumer Demand Weakens

Web Services, Brick-and-Mortar Sales Increase as Core Online Retail Revenue Falls

Amazon reported growth for its bricks-and-mortar operations even as online sales lag. (iStock)

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CoStar News

July 28, 2022 | 9:45 P.M.

Despite better-than-expected sales numbers, online retailer and web services provider Amazon is feeling the heat of shifting consumer demand and says it will be slowing its 2022 and 2023 expansion plans.

In a call with investors to discuss second quarter results, in which revenue beat expectations, the company said the shift would be reflected in the company's capital expenditures, with investment in its high-performing cloud services operation Amazon Web Services expanding and spending on fulfillment-related capital projects shrinking as its pace of store building slows. The moves are a response in part to weakened consumer demand as prices have climbed.

“We have slowed our 2022 and 2023 operations expansion plans to better align with expected customer demand," Chief Financial Officer Brian Olsavsky said on the call. “For the worldwide stores business, we’ve continued to moderate our build expectations to better align with customer demand. We expect the fulfillment and transportation dollars spent on capital projects to be lower in 2022 versus the prior year.”

The company, which because of its sheer size serves as an indicator of consumer tastes and business demand, earlier this year said it would put some of its millions of square feet of logistics and warehouse space on the sublease market and has taken action recently to slow or give up on some office and warehouse projects that had been in the works.

The slowing expansion plans come as Amazon recorded revenue of $121.2 billion for the quarter ended June 30, up from $113.1 billion in the same quarter the year prior. The company posted a loss of $2 billion, compared to earnings of $7.8 billion in the year-earlier period. The loss was attributed in large part to a $3.9 billion loss the company took from the declining value of its investment in electric vehicle manufacturer Rivian.

Amazon, which has expanded from its roots as an e-commerce business to include web services and streaming entertainment, presented a mixed financial picture. Its web services business posted a 33% year-over-year increase in net sales to more than $19.7 billion and net sales in its advertising business grew 18% to $8.8 billion in the quarter. Sales at its core online stores business fell by 4% to $50.8 billion.

In a bright spot for the commercial real estate industry, however, the company's brick-and-mortar retail locations turned in net sales of $4.7 billion, a 12% increase over the prior year and the fifth consecutive quarter with quarterly sales growth north of 10%.

Overall sales volume generated by the company's brick-and-mortar operations — namely its Amazon Go convenience stores and Fresh and Whole Foods groceries — are still dwarfed by its online operations, but in-person growth figures were the strongest of the all company’s retail segments.

“Amazon is suffering from the same fate as players like Walmart and Target, namely that costs are outpacing sales growth by quite some margin.” said Neil Saunders, managing director of GlobalData, in an emailed statement after the results were released. He noted that a broader pullback in consumer spending is leaving the retail sector as a whole on its back foot.

New Initiatives

The increase in sales at its physical stores comes as Amazon continues to experiment with in-person initiatives more broadly, including a major move into brick-and-mortar healthcare at the same time as it has pumped the brakes on other parts of its real estate strategy.

On Tuesday Amazon announced it would acquire One Medical, a $3.9 billion purchase that will add a turnkey network of 188 primary care clinics across the United States, part of a startup that aims to use physical locations as access points for services that are streamlined through app interfaces.

The company also is pushing its “Just Walk Out” technology, pioneered in its Amazon Go line of convenience stores, which allows enrolled customers to be billed electronically as they walk out of a store with their goods without ever waiting in a checkout line. The tech is now making its way into third-party stores, including at stadiums and airports.

And following its 2017 acquisition of boutique grocer Whole Foods, Amazon has continued to expand its grocery store footprint by opening a total of 12 Amazon Fresh stores across the United States and the U.K.

Real Estate Shift

Outside of retail, the e-commerce giant has been adjusting its real estate strategy in recent months across North America, where Amazon-leased or owned office and logistics space runs into the hundreds of millions of square feet, with its logistics network alone totaling 376 million square feet in the United States as of late March.

In a broader pullback in its logistics commitments, the company earlier in the year moved to sublease at least 10 million square feet of warehouse space.

Then on July 14 Amazon confirmed it would “pause” work on building out nearly 4 million square feet of office space in two of its major hubs, encompassing nearly all of its office space construction in Nashville, Tennessee, and Bellevue, Washington.

Amazon representatives at the time said the company had not broken any leases and intended to restart work, and was only halting work temporarily to redesign the spaces to accommodate pandemic-induced changes to office space use. The following day, news broke that the company was cutting the amount of space it would lease at a planned Manhattan office by an undisclosed amount.

While the company’s pause and pullbacks grabbed headlines, Amazon has expanded in other areas. According to a CoStar analysis, Amazon has since early 2020 spent at least $2.3 billion on properties totaling more than 5,000, including nearly 400 acres over the past three months alone.

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