

## Palladium property Insights

### Winter 2021

Welcome to our current insights on the changing trends towards B2B and retail logistics in Australia.

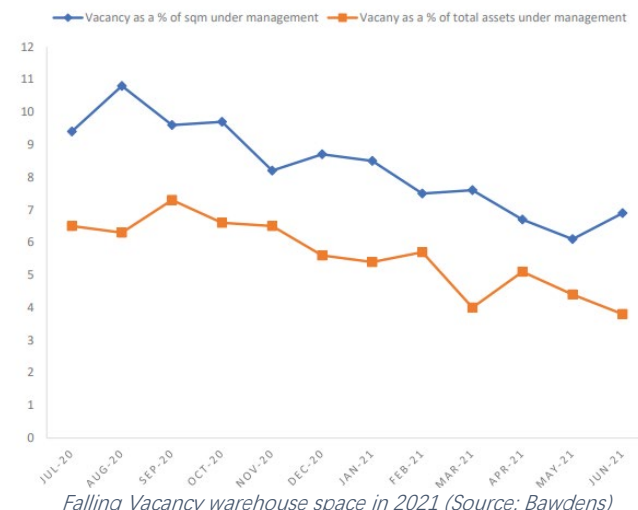
#### Industrial development towards Urban Logistics

Since the onset of COVID-19 in February 2020, the significant increase in online shopping and e-commerce platform throughout Australia presents ongoing massive opportunities for the logistics/industrial property sector. The accelerated demand in e-commerce is driving historically high levels of industrial development in Sydney and Melbourne. Property experts predicts an increasing demand in industrial development with at least an extra 500,000 sqm space needed each year to accommodate the customer demand in online shopping (Source: The Urban Developer).

As businesses expand their e-commerce, the demand for warehouse facilities and logistics provides exponential demand and investment opportunities not just for large prime logic space, but also for the secondary warehouse industrial sector. These logistic demands result in companies needing more storage space and delivery capabilities within the metropolitan areas of the cities.

The warehouse and logistics facilities in densely populated areas have attracted an increasing industrial property investor even before COVID-19. The trend is also seen worldwide with many office and retail investors buying warehouses near cities to diversify their portfolio. The industrial sector in Australia had a record-breaking year with more than \$12bn worth of transactions in the past 12 months (Source: The urban Developer).

A number of vacancy surveys of industrial warehouse confirms that the last financial year saw an outstanding fall in the availability of industrial spaces to lease as shown in the graph.



The increase in e-commerce is also increasing the demand for specialised warehouse solutions including automation, particularly in the prime industrial logistics sector. Many retailers are currently focusing on a spoke model using automation to create smaller but efficient ways to meet the supply demand and ensure efficient delivery routes. During the pandemic, some of the major retailers in Australia, such as Coles, Woolworths, and Kmart, have been reported to experiment with urban logistics. In the past 5 years, more than 350,000 m<sup>2</sup> of industrial space has been leased to Coles and Woolworths (Source: Australian Financial Review).

Demand for industrial and logistics infrastructure continues to result in significant increase in land prices in metropolitan areas, commencing with the cycle upturn in circa. 2021 in the Sydney metropolitan areas, followed by the Melbourne and more recently the Brisbane / South East Queensland markets. There has also been an increase in infill land values compared to the outer areas of metropolitan cities. A report by Knight Frank (July 2021) predicted the suburbs which would stimulate interest in redevelopment opportunities to develop facilities closer to the end users. Predicted areas in Sydney are Alexandria, Marrickville, Auburn, Lidcombe, Homebush, Silverwater, and Strathfield.

The pandemic has resulted in significant economic challenges for tradition retail and property investors in this sector. The retail sector's loss is likely to be industrial property's gain.

The industrial sector and in particular logistic warehouse space, has benefited from the changing landscape and market disruption due to COVID-19 necessities and Australia's ongoing trend towards online purchases closing the gap with some of its major trading partners. The new led development in industrial sector towards urban logistics continues to create immense opportunities in the coming years for industrial investors, especially in areas supported by strong population growth and new infrastructure.

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