

A NEW ERA THE POST-PANDEMIC LANDSCAPE OF INDUSTRIAL DEVELOPMENT

The role and nature of industrial development has evolved significantly over time with exponential impacts from the pandemic. We have observed a change in consumer behaviour and the shift between ‘just in time’ and ‘just in case’ changing the needs of warehousing development and logistics infrastructure to support fulfilments.

In parallel to a burgeoning e-commerce trade, Australia’s cities and major urban areas are growing rapidly with competition for well positioned ‘last-mile’ warehousing facilities heating up. As Urbis’ recent monitoring shows, industrial vacancy rates in Australia’s three largest cities at Quarter 2 of 2023 averaged 1.03% (having slightly increased from its historically low average of 0.5% six months prior). Sydney in particular exhibits a very tight industrial property market with vacancy at 0.1% and increased land prices.

Australia’s major cities are set to densify further, with growing urban populations fuelling demand for services such as access to goods. This significant demand, which appears to be continuing to mature and grow, is fuelling a need for further industrial or logistics floorspace in already dense and expensive locations.



VACANCY RATES

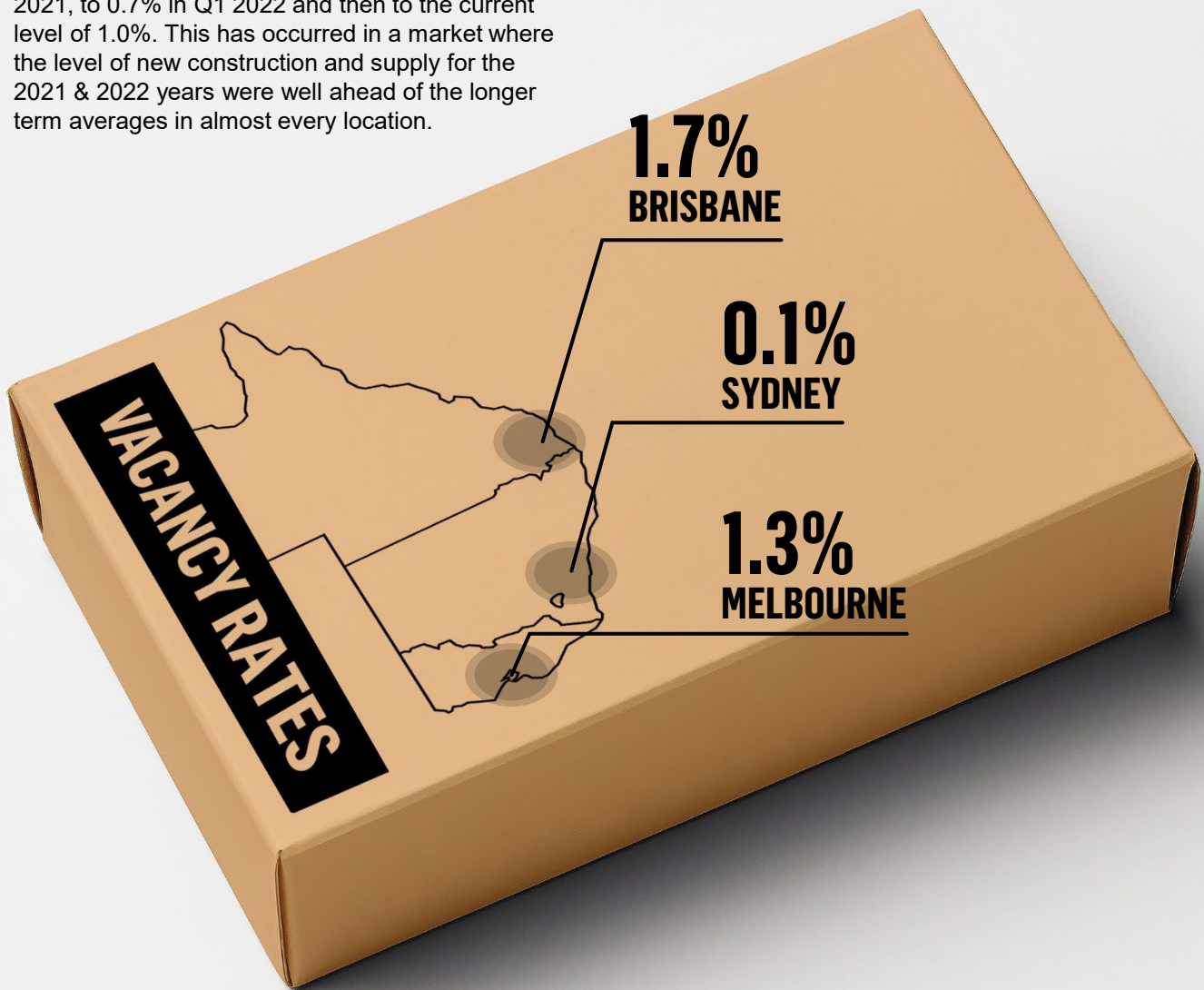
This report provides the current industrial vacancy rate for buildings over 10,000m² across the three capital cities on the Eastern Seaboard.

Overall, we're seeing vacancy rates continue to remain at historical lows, albeit a slight lift has transpired. The stats are currently 1.3% in Melbourne, 0.1% in Sydney and 1.7% in Brisbane.

The Q2 2023 statistics resulted in a slight increase in the overall vacancy rate, following its historical lows in Q4 2022 of 0.5%. This trend has seen the eastern seaboard vacancy fall from 2.5% in Q1 2021, to 0.7% in Q1 2022 and then to the current level of 1.0%. This has occurred in a market where the level of new construction and supply for the 2021 & 2022 years were well ahead of the longer term averages in almost every location.

Rental growth is now at record strength, with deals showing significant growth which is supported by both increased face rentals and falling incentives.

Innovations in technology and operations will be one of the keys to responding to this significant growth in demand. Developing up instead of out is the other.



	Stock Evaluated	Highest Vacancy Sub-Market	Average Size of Vacancy	Prime/Modern Vacancy Rate	Secondary/Tertiary Vacancy Rate
Melbourne	18,700,000	East (3.19%)	20,321	1.1%	1.7%
Sydney	13,150,000	South (2.36%)	14,290	0.0%	0.4%
Brisbane	7,500,000	Logan Corridor (3.79%)	31,611	2.0%	1.3%

WHAT IS MULTI-STOREY?

Multi-storey warehouse development refers, as the name suggests, to the construction of industrial buildings with multiple floor levels. This style of construction allows for a greater usable floor space per square metre of land, an important consideration in areas where land is scarce or expensive.

The design of these facilities often includes features such as ramps or lifts, which allow heavy vehicles to access the upper floors. Multi-storey industrial facilities are designed to have multiple tenancies, whilst multi-level facilities are those with multiple floors that are tenanted by a single operator. Each floor in a multistorey building is typically designed to operate as single or multiple independent tenancies with separate docking facilities for each level.

The multi-storey typology also has the potential to unlock a greater range of sites which can be developed for industrial uses, such as sloping land. Multi-storey industrial developments on sloping land can resolve challenges of topography, such as providing multiple access points along sloping streets and providing access ramps that can link different levels that were previously considered to be isolated or unusable due to topography.

Another emerging use case for multi-storey industrial development includes vertical indoor (hydroponic) farming and archiving storage. It's reasonable to expect that other uses well suited to multi-storey industrial facilities will continue to emerge over time as well.

Multi-storey warehouse facilities share strong alignment with greater diversification of land uses in precincts, particularly for retail and commercial uses. Warehouse floorspace being elevated within a building can unlock ground floor street frontages to be used for retail or other commercial uses. Similarly, office floorspace can be located in upper levels of buildings and benefit from connection to elevated warehouse floors. This greater diversity and blending of uses lends itself to greater amenity, particularly for streetscapes and keeps access to employment and services close to dense residential areas – critical to keeping the 20 minutes city ideal alive.

ECONOMIC DRIVERS

The economic drivers and enablers of increased multi-storey development will include low vacancy rates, high land values, limited land availability and demand for industrial floorspace in established urban areas. Another potential financial efficiency for multi-storey industrial development is the potential to share outgoings across multiple levels and tenants. A reduction in outgoings (through a spread across a higher GLA) is beneficial in a market where rents and outgoings are increasing.

Industrial and warehousing floorspace demand shares a strong relationship with population scale and density. The densification of Australia's major cities is likely to continue to lead to increased demand for industrial floorspace, particularly for 'last mile' logistics facilities in inner-city areas.

Constructing multi-storey facilities in inner-city locations generally involves higher construction costs than traditional single-storey warehouses. The structures themselves need to be more robust to support multiple floors, requiring additional and often more expensive materials and engineering solutions coupled with the higher likelihood of contaminated or difficult ground conditions. The increased cost of higher quality facades to provide improved built form treatment also need to be factored in.

Critically, the abovementioned economic drivers need to align for multi-storey to become a reality in a city. We see this has played out extensively in markets such as Singapore, Hong Kong and Japan. In an Australian setting, South Sydney is leading the way, with high rents and the lowest vacancy globally providing the right settings. Melbourne is closely following but is yet to achieve broadscale alignment on those value metrics. We anticipate Queensland and Western Australia to follow suit in the coming years.

Currently, there is no well-established capital market of this asset typology in Australia, and as such the valuation of such assets is not yet known. Early adopters of a multi-storey typology could appeal to a boutique offering or to businesses with specific use-cases that have synergies with a multi-storey design. Despite the lack of a well-established market, Urbis view the recent and strong growth in rent as etching the market closer to broader scale viability for multi-storey industrial development in key locations.

FUTURE DIRECTIONS FOR INDUSTRIAL DEVELOPMENT

Industrial developers, landlords, and operators should keep a close eye on the evolving circumstances and drivers surrounding industrial property in Australia's major cities.

For the majority of Australian geographies, it is likely that traditional single storey industrial development will remain the dominant typology of future industrial floorspace over the short to medium term. However, select localities could see a notable increase in multi-storey industrial development, such as the inner-city industrial clusters surrounding Port Botany and the Kingsford Smith Airport in southern Sydney.

Whilst up-take of multi-storey industrial facilities may be modest and circumstantial on favourable use cases over the short to medium term future, it remains key that planning policies and processes are facilitative of the typology and land use mix.

Development controls such as floor space ratio and maximum building heights are highly relevant to multi-storey industrial development and its degree of compliance with local and state planning instruments and policies. It is likely that development controls in inner-city industrial areas more prone to multi-storey industrial development will need to be reviewed to be somewhat more akin to commercial development controls, which are more suited to managing impacts of multi-storey development.

Encouraging multi-storey development through updated planning policy and controls may alleviate observed pressures of 'edge' industrial land to be re-purposed for higher order commercial or mixed uses in some geographies.

Infrastructure planning exercises should consider if traditional infrastructure demand assumptions remain relevant and fit-for-purpose for localities which are more likely to see up-take in multi-storey industrial development.

Developers and operators should consider the future needs and opportunities, particularly with regards to the current and likely ongoing scarcity of industrial floorspace in key inner-city locations. Multi-storey facilities have the ability to improve employee value propositions, with greater potential for workplace precincting and place-making.

Urbis' industrial specialists have comprehensive experience with industrial property and development and the emerging trends for the sector. Our capabilities include valuations, property economics, design, planning and transaction advisory.

If you'd like to know more about multi-storey industrial development, please reach out to the following city shapers.



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