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HD **Storage pinch set to lift rents**

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The improving economy has positive impacts for consumer spending, however investors in the industrial property sector are bracing for increased pressure on demand for space, which would lead to higher rents.

Already the supply of large distribution centres is tightening as developers cannot keep pace with the rise in the amount of goods being bought online that need storage. In turn, this is forcing the developers and tenants of the warehouses to look at ways to make the assets more efficient, from the inside.

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Goodman Group has recently signed agreements for 95,000 square metres of leasing and development transactions in China, highlighting the continued strong growth of its business in that market.

The goods stored in those warehouses will, quite possibly, find their way to Australia and will need to be stored locally.

Philip Pearce, Goodman managing director, Greater China, said the new lease at Goodman Suzhou West Logistics Centre will enable Cainiao to expand its core business, which is to facilitate the logistics network of Tmall.com, its largest shareholder.

Tmall.com is part of Alibaba Group and is a leading Chinese-language website for business to consumer (B2C) online retailers.

JLL national director, corporate industrial solutions, Andrew Maher, said a new report from JLL America indicated there was a wave of change coming for warehouses and logistic business operators. He said the report from JLL US director Richard Thompson - "Five trends to watch to keep your supply chain afloat" - includes customer service and same-day shipping, interest rates and inventories, rising transport costs and truck driver shortages.

Maher said Australian companies with supply chains will face the same impacts as their US counterparts as we turn the economic growth corner.

"The accelerating economic recovery and inevitable growth cycle will pose risks for a number of operational issues," Mr Maher said.

"A stronger economic recovery will increase consumer spending and in turn shipping volumes. This can create strains on shipping capacity which likely will lead to delivery cost increases."

He said as larger retailers secure more favourable pricing and preferred service status with parcel carriers, smaller retailers could be dealt a tough blow.

"Most retailers are still reliant on third parties for eCommerce order fulfilment. They will have less control of profit margins as they are forced to absorb fees relating to delivery costs," Maher said. "There is the potential for delivery costs to be impacted by the increased expectation of consumers for same-day shipping. Ten years ago, online and over the phone orders were expected to be delivered within 7-10 days.

"Five years ago, the expectation changed to 3-5 days and now they have evolved to 'same day' shipping and 'next day' delivery."

Maher said many companies have been anticipating the growth in express parcels, with Toll **Group** positioning itself by building a $170 million freight-sorting facility in Sydney's west, reported to be the largest of its kind in Australia.

The building, at the Bungarribee Industrial **Estate** at Huntingwood, is a custom-designed facility that will increase Toll's parcel-sorting capacity.

The rise in online retailing is having an impact on building design in warehousing and sorting.

"As the economy improves and consumers spend again, we expect container movements will rise, warehousing will need to be increased and ultimately rents will rise as demand increases," Maher said.

"This demand will also relate to more specialised warehousing assets like we have seen with Toll's specialised facility."

A faster-growing economy will also exacerbate issues relating to the trucking industry, particularly driver shortages and the obsolescence of ageing truck fleets.

CO magmgp : Goodman Group

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