



JULY 2011

ONLINE RETAILING GROWTH WILL DRIVE SHED DEMAND

Industrial Property Insight

Knight Frank

The growth in online retailing as a percentage of total retail spending is a hot topic at the moment, especially relating to its impact on the retail sector now and into the coming years. Retailers and retail landlords have needed to adapt to this structural change and further strategic planning will be required to drive their relative success in the years to come. However one side of the equation that has not been talked about much is the impact this transition may have on the industrial property sector.

The retail and logistics sectors have been the major drivers of demand in the industrial market over the past 12-18 months. Major retailers such as K-Mart, Coles, Woolworths and Metcash and logistics operators such as DHL, Toll, Linfox and QLS have leased or pre-committed to major industrial facilities on the eastern seaboard. Although much of the large occupier requirement has been absorbed for now and pre-lease enquiry has slowed somewhat, there continues to be a broad based enquiry from the retail and logistics sector occupiers.

The strong \$AU will continue to make imports attractive and as Australian economic growth picks up again from H2 2011, imports will rise, fuelling demand for distribution centres and warehouses. Although retail spending growth has slowed considerably over the past year and is expected to remain well below longer term trend growth in 2011, once retail spending picks up again and domestic demand strengthens, this will fuel further demand for warehousing.

Internet retail sales have been rising rapidly

in Britain, recording a 15%+ annual increase in online retail sales growth over the past few years and now account for 9.4% of all retail sales, up from 3.3% only four years ago. Over the same period in Australia, the share of online sales has only risen from 4% to around 5% currently. As online retailing in Australia matures and becomes increasingly popular and more convenient, some economists expect this market share as a proportion of total retail sales to reach 8%-10% within the next 5 years.

Impact on Industrial Demand

This inevitable structural shift is likely to create a surge in demand from transport companies servicing online purchases from both domestic and off-shore retailers. Even the "leakage" of retail spending overseas which Australian retailers are currently rallying against, will actually be a positive influence for industrial/logistics courier operators. However these facilities tend to be smaller as goods are only on site for a matter of hours in transit rather than weeks/days.

The retail categories that have penetrated the market the quickest are electrical goods, clothing and footwear, books, CD's & DVD's, cosmetics and buying groceries on the internet. Even with competitive forces squeezing margins at the supermarkets, there is still the ability for groups to increase their relative portion of the online pie in coming years to assist profit growth.

Another interesting trend that could emerge in Australia is what is referred to in Britain as "dark stores" which are essentially

superstores exclusively to service online orders and have no physical customers. Shopping giant Tesco currently has three dark stores and Asda has two. In Australia, most retailers still fulfill orders from existing stores, but in time there may be a trend towards large big box sites that only cater for online shopping orders.

The British industrial property market has seen an increased interest from online retailers like Amazon, ASOS (online apparel) and clothing giant GAP. Warehouse lease transactions totaling over 200,000m² have occurred to satisfy the online demand for their product, with Amazon opening a 100,000m² facility in Scotland later this year.

OPPORTUNITIES WILL ARISE TO CAPTURE THIS TREND

Opportunities will arise in Australia for industrial landlords/developers over the next few years to capture this shift to online retailing, even if the \$AU does revert back to mean over this period. The share of online spend as a percentage of total retailing will continue to increase, and not only do the retailers and retail landlords have to continue to adapt, but the industrial players can capture the demand that will come from transport and logistics groups, select large occupiers and of course the major retailers.

www.knightfrank.com.au

Research Contact

Matt Whitby

National Director - Research

+61 2 9036 6616

Matt.Whitby@au.knightfrank.com

Industrial Agency Contacts

Greg Russell

Joint Managing Director - Industrial

+61 7 3246 8804

Greg.Russell@au.knightfrank.com

James Templeton

Joint Managing Director - Industrial

+61 3 9604 4724

James.Templeton@au.knightfrank.com