

The need for speed

The growing dynamic of automation in Australian industrial real estate

By Jonathan Davies,
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It is 3am and while most of us are asleep, the work day is firmly underway in a massive high clearance distribution centre in western Melbourne that is around two times bigger than the Melbourne Cricket Ground.

Hundreds of robots are shifting products on to kilometres of conveyor belts where they are sorted, sent for packaging and despatched quickly to rows of waiting vehicles for same day delivery.

This is the future of industrial real estate. The labour-intensive industrial sheds of the past are giving way to 24-hour, highly automated flexible spaces, increasingly filled with autonomous self-guided vehicles and other technology to meet the growing volume of online retail demands and need for speed.

The catalyst for this transformation was the COVID-19 lockdowns which turbo-charged a boom in e-commerce in Australia and prompted a rapid evolution of the supply chain dynamics including accelerated demand for automation and increased emphasis on warehouse locations that were closer to customers.

Five years on, the landscape is shifting. Industrial property vacancy rates have risen slightly but are still amongst the lowest in major industrial markets globally and significantly lower than pre-COVID-19 rates. While a combination of higher interest rates, high construction costs and land availability are impacting supply, the future continues to be bright for real asset owners and managers like Dexu which has an existing \$10.5 billion industrial portfolio and established development pipeline. When combined with the platform's deep experience and proprietary data analytic systems, Dexu is well placed to identify the pockets of opportunity that the changing landscape known as the fifth industrial revolution presents.

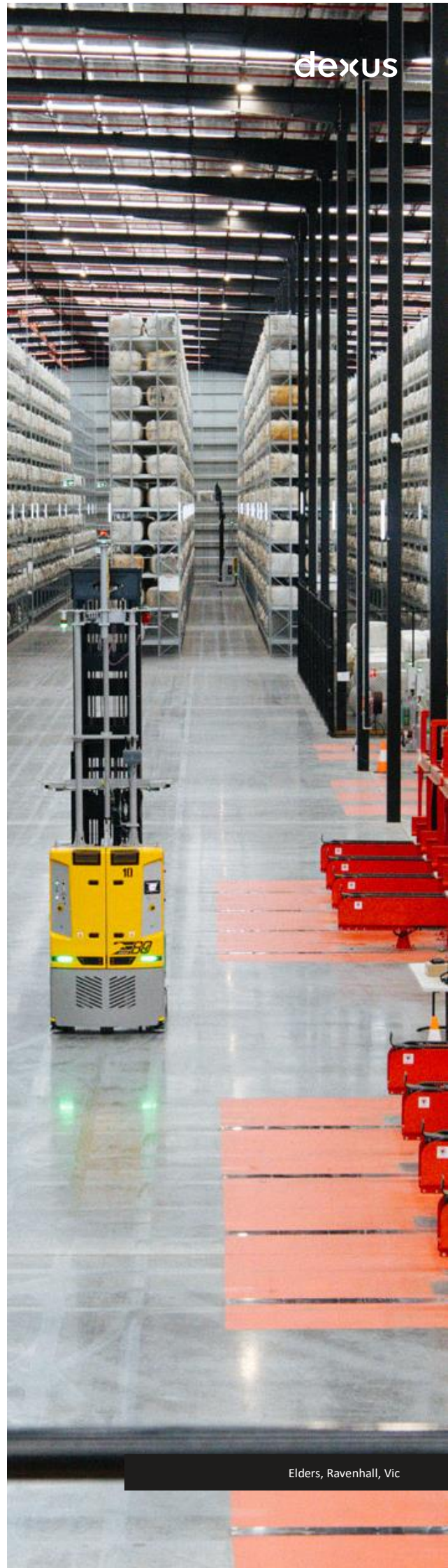
For context, the fourth revolution was the digitisation of industrial real estate. The fifth, is the integration of advanced technology, AI, Internet of Things and robotics, with human intelligence and creativity that make industrial buildings 'smart', flexible and future-proofed and most importantly, more productive than ever before.

Industrial real estate has evolved to be an essential service and critical economic driver as the nerve centre of the modern supply chain with \$1.2 trillion of goods passing through Australian industrial assets each year¹.

Australia has one of the highest population growth rates in the OECD and that growth rate, concentrated on Australia's eastern seaboard, will continue to lift base-level demand for industrial space. Recent CBRE research showed that for every additional one million of population in Australia an additional 4.5 million square metres of logistics warehouse space will be needed².

In addition, Australia's online penetration is in its infancy relative to global peers. Expected online sales growth of around 7% per annum over the next four years remains a key driver of demand for fulfilment, sortation and well-located last-mile urban logistics

dexu



Elders, Ravenhall, Vic

centres. Overall, an estimated 2.1 million square metres of additional warehouse space will be required in Australia by 2030 to purely support the growth of online sales³.

The other major driver of industrial real estate change is the insatiable demand from our customers and consumers for rapid and reliable delivery. Almost 40% of tenants across our portfolio of 200 industrial properties and 4 million square metres of lettable space are implementing or piloting use of automation and 75% are looking to.

They are acutely aware that if they cannot deliver the speed of delivery that consumers demand, 85% of them will change retailer or provider if they experience slow service – and that consumers are willing to pay more for speed⁴. In the United States, the average turnaround time on an Amazon order is 1.5 days⁵. We are proud to have Amazon as a tenant customer at our ASCEND Industrial Estate at Jandakot and Horizon 3023 at Ravenhall. These facilities are well located with direct access to transport infrastructure enabling Amazon to deliver on these ambitious timeframes.

Dexus has been at the forefront of this wave of industrial change which is leading to a bifurcation of the market. Over the past 10 years, we've developed and fine-tuned our ability to work closely with customers to develop well-located adaptable smart base buildings to exacting dimensions that can accommodate flexible automation capabilities. In addition, we are embedding solar panels and batteries in all new warehouses to power the advanced systems and robots within them and reduce carbon emissions, working closely with customer partners to achieve their net zero goals and align with ongoing Dexus targets.

This in turn has enabled us to develop deep long-term multi-site relationships with international blue-chip customers and generate above market returns. In contrast, industrial asset owners that have older legacy buildings, many of which are multi-story and ill-suited to

smart fit outs, struggle to find blue chip clients and achieve higher rentals and yields.

Showcasing our ability to deliver in the fifth industrial revolution, Dexus has also worked with leading agribusiness Elders on its largest ever investment in the wool industry this century to develop the world's first automated wool handling facility.

The 35,000sqm 4-star Green Star Design and As Built facility stacks heavy wool bales 10 levels high and uses 22 solar and battery powered autonomous self-driving vehicles to safely and more efficiently move and sort them.

Thanks to unique expertise and insights from the Dexus platform we intend on continuing to be at the forefront of advances in the sector that deliver for our clients and investors, from the vast amounts of data on growing spending and omni-channel expansion from our retail colleagues to intel into where new roads and supporting infrastructure are being built and potential co-location projects from our infrastructure experts.

