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## Postcard from London: the rise and rise of industrial and logistics demand

**Rising demand for industrial and logistics space in Sydney and Melbourne echoes the London experience, offering lessons and likely future directions, writes Ben Burston, Group Director, Head of Research and Consulting.**

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Changes in consumer preferences, the ongoing shift to online shopping, and the emergence of new technology are driving a generational change in the quantum and nature of demand for industrial and logistics space. These trends are increasingly global, and the experience of major world cities offers lessons for the Australian market and for Sydney and Melbourne in particular, as occupiers, developers and investors come to grips with the rapidly shifting landscape.

Having recently returned to Australia from London, I have witnessed firsthand the rapid expansion of demand for industrial and logistics floor space over the past few years and consequent evolution of the sector. As a country with a high population, heavily concentrated in the south east of England, and led by London with a population of circa 8.9 million, the UK has proved to be fertile ground for the expansion of online retail, which has risen from 4% to 17% of total retail sales over the past ten years, the highest online penetration rate in Europe and the third highest globally.

Largely in response to this structural change in the retail sector, demand for industrial and logistics space has risen in quantum and broadened in tenant type over the past five years, with increasing take-up across a broad base of logistics operators, retailers, and wholesalers, in addition to the traditional manufacturing base. Amazon has led the way, taking over one million square metres across the UK over the past two years in order to develop a series of large fulfilment centres to meet rising demand and market share.

This has put pressure on supply levels and land availability, driving down vacancy rates and increasing competition tension for the best facilities and the most strategically located sites. The natural consequence of the tightening demand-supply dynamic has been accelerating rental growth, with UK industrial rents rising by around 12% on average over the past three years and by over 15% in London.

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## **integrate their real estate seamlessly within their broader supply chain.**

Beyond rental growth, the broadening tenant mix is resulting in new types of requirements, with an increasing focus on build-to-suit facilities that enable logistics operators and retailers to develop according to their specific requirements and integrate their real estate seamlessly within their broader supply chain. This means a focus on strategic locations, resulting in a huge expansion of space along major road transport corridors to facilitate distribution networks between major cities, notably London, Birmingham and Manchester.

Australian markets are now experiencing a similar uplift in demand, with Sydney and Melbourne having experienced a step change in take-up, up by 41% in 2015-17 compared to the three previous years. The markets are also seeing increasingly sophisticated build-to-suit requirements. A recent example is the purpose built Toll Holdings facility at Preston Logistics Estate, built for Specialty Fashion Group to facilitate a fast and cost effective supply chain for its customers, featuring the latest warehouse technology.

The development of advanced facilities such as these demonstrates that real estate is viewed as a vital part of the wider supply chain, and consequently that the decisions made by tenants will depend on efficiency and cost management from a holistic perspective. The emphasis is shifting to the need to offer the end consumer speed and convenience.

## **Cities like London, and increasingly Sydney and Melbourne, will experience rising demand for logistics space in urban areas in coming years, to facilitate rapid delivery and accommodate new sources of demand.**

Linked to this, large global cities like London, and increasingly Sydney and Melbourne, will experience rising demand for logistics space in urban areas in coming years, to facilitate rapid delivery and accommodate new sources of demand.

Competition to speed up delivery times is a key driver of this, to counter the well documented 'last mile problem' – essentially the most complicated and costly part of the delivery process is the final phase from the distribution centre to the end user. This will pull some of the demand inward, closer to the end user rather than on outer rims of cities.

Similarly, emerging trends such as the use of 'dark kitchens' will also be boosting demand for space in urban areas. 'Dark kitchens' are a response to the recent proliferation of home delivered restaurant food choices, with restaurants investing in shared spaces in industrial facilities to enable a more efficient preparation and delivery process. This is an emerging trend in London, and now beginning to occur in Sydney and Melbourne.

## **Demand for industrial and logistics space is on the rise globally, and this trend will continue to provide a substantial tailwind for the sector in Australia.**

Taken together, these trends illustrate the rapid evolution of the sector and remind us that sweeping changes in consumer behaviour, led by new technology, will continue to shape our markets. Demand for industrial and logistics space is on the rise globally, and this trend will continue to provide a substantial tailwind for the sector in Australia. However, the type of space demanded will also evolve, creating challenges for market participants and urban planners to stay ahead of the curve and provide for the growing demands of our biggest cities.