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The Department of Infrastructure, Transport, Regional Development, Telecommunications and the Arts
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By email: freightstrategyreview@infrastructure.gov.au

To Whom It May Concern

Review of the National Freight and Supply Chain Strategy

Thank you for the opportunity to make a submission to the Review of the National Freight and Supply Chain Strategy (the Strategy) undertaken by the Department of Infrastructure, Transport, Regional Development, Telecommunications and the Arts (the Department).

The Property Council of Australia champions the industry that employs 1.4 million Australians and shapes the future of our communities and cities. Property Council members invest in, design, build and manage places that matter to Australians: our homes, retirement villages, shopping centres, office buildings, industrial areas, education, research and health precincts, tourism, and hospitality venues and more.

The Property Council represents the industrial property sector and convenes national, state and territory Roundtables and Councils to best understand the issues affecting industry, develop solutions and advocate on their behalf. As part of our advocacy, the Property Council has developed a number of research reports including "*Winning the Supply Chain Revolution*" and "*The Value of Goods Through Industrial Assets*" which we will launch shortly. The data and information in these reports are referenced in this submission. As these reports and the data contained in them are yet to be launched, we request that our submission remains confidential.

The Property Council supports the decision of the Infrastructure and Transport Ministers' Meeting to bring forward its review of the Strategy and welcomes the opportunity to provide recommendations on how industrial developments can play a role in creating a safer, more productive and resilient supply chain in Australia.

As identified in the Discussion Paper and reinforced in the recent 2023 Intergenerational Report (IGR), Australia will experience increased climate issues which may manifest in an increasing number of natural disasters due to climate change. Further, the recent COVID-19 pandemic and geopolitical shifts exposed gaps in our supply chain have impacted the delivery of essential goods and services and the industrial sector more broadly. In addition, the IGR forecasts that Australia's population is projected to grow to 40.5 million in 2062-63 which frames our future housing supply challenge, and punctuates the question as to where these new homes will be delivered and how the industrial sector can provide goods and services to them.

As noted in the consultation paper, climate change, the pandemic and geopolitical challenges have highlighted the importance of supply chains to the delivery of essential goods and services, reducing cost of living pressures and improving Australia's prosperity.

However, the Strategy fails to recognise the fundamental role that industrial land and assets play (beyond just freight location) in the performance of supply chains and that, in addressing the challenges faced in the development and operation of industrial land and assets, supply chain performance would be greatly improved, and resilience strengthened.

What are Industrial Assets?

The Australian industrial and logistics property sector is currently worth \$247 billion, having grown 69% since 2018. This makes industrial and logistics assets essential to today's modern economy, and to the future productivity and prosperity of our nation.

Multiple players – manufacturers, distributors, retailers, wholesalers and consumers – come together to create value along the length of every supply chain and a building, often a logistics precinct, sits at each step along the way.

From simple sheds to sophisticated multi-level distribution and fulfilment centres, industrial and logistics assets accommodate a wide range of activities and building types:

- **Warehouses** are used mainly for storing business inventory, but also for repackaging, assembly, manufacturing and repairs
- **Distribution centres** store products for relatively shorter periods than warehouses and offer value-added services like product mixing, order fulfillment, cross docking and packaging
- **Manufacturing buildings** are the centre of goods or materials production and often house specialised equipment
- **Cold storage facilities** are typically used as distribution centres for food and pharmaceutical products
- **Data centres** house a large group of networked computer servers that store, process and distribute data
- **Ancillary** buildings support a wide range of uses, including research and development, office work, show rooms or light manufacturing.

The Property Council has commissioned BIS Oxford Economics to analyse into the economic importance of the industrial and logistics sector by quantifying the value of goods flowing through the sector.

This soon-to-be released research has found that the value of goods flowing through industrial assets is \$1.2 trillion, reinforcing the need to prioritise industrial land and assets - in addition to transport infrastructure – when developing a national supply chain strategy.

Recommendation:

Ensure that reporting on the critical action areas under the Strategy specifically includes data on industrial land and assets given the significant role played in achieving the Strategy's goals of:

- *Smarter and targeted infrastructure investment*
- *Enable improved supply chain efficiency*
- *Better planning, coordination and regulation*
- *Better freight location and performance data*

Strengthening supply chain resilience

The consultation paper notes that the updated Strategy and National Action Plan will need to build resilience to meet emerging issues associated with natural disasters and climate risk, and to mitigate the impact of climate disruptions on supply chain productivity. The consultation fails to mention the risk of unmet demand on supply chains and how this will undermine resilience.

Industrial and logistics volumes represented 37% of total global commercial transactions in 2021, almost double the 10-year average of 20%. This significant increase in demand needs to be considered when updating the Strategy – particularly with strong population growth forecast- as these changes have already heightened the need for well-located, connected industrial land and assets to support Australia's supply chains:

- Australia's e-commerce sector increased by 122% (or \$29 billion) between 2016 and 2021, requiring an estimated 350,000 sqm of new space – warehouses, last mile hubs, repurposed retail facilities and parcel lockers – to be developed each year to service e-commerce demand alone.
- Increased parcel delivery increased the small truck movements in our suburbs driving demand for "micro-freight operations.
- Shifting approaches to supply chain management from 'just-in-time' to a 'just-in-case' to manage risks that have merged since the pandemic.
- Innovation in the construction sector to modular construction and prefabrication have moved activity from the site to the factory floor.
- Increased consumer demand for convenience, the freshest food and pharmaceuticals has driven a surge in demand for cold chain storage.

Concerningly, Australia's vacancy rate for industrial and logistics land is the lowest globally at 0.8%, indicating a vulnerability in ability to meet the increasing pressure that demand is putting on supply chains.

With current capacity constraints, landlords are working with tenants to optimise their space. But as customer demand continues to outpace supply, space constraints could curb business growth across the economy.

Supporting the property industry in addressing the availability of well-located, connected industrial land and assets is a key area to be strengthened in the Strategy as it specifically relates to the Government priority of supply chain resilience. Significantly, this will reduce cost of living pressures by:

- **Prioritising best practice strategic planning to meet changing trends and future needs:** Planning systems across all states and territories are plagued by inefficiencies and uncertainties. Planning must keep pace with changing trends and be part of a new conversation about freight and logistics activities into the future. There is currently low commitment to regulatory and policy consistency from governments. The most urgent concerns are at the local and state government levels, demanding more coordinated and integrated planning, management and monitoring.

- **Coordinating land supply and flexible zoning to embrace and fast track new freight and logistics precincts, powered by high impact City Partnerships:** Creating successful places in the digital era includes designing and planning for freight and logistics activities in our urban environments. With a vacancy rate of less than 1% in many parts of Australia, the sector needs more space to meet demand. Supply is insufficient across all markets, but especially in our three biggest cities of Sydney, Melbourne and Brisbane. In addition, to attract and retain freight-related businesses and workers, a range of amenities, services and facilities also needs to be provided.
- **Innovating to support 'last mile' delivery:** Contemporary freight and logistics supply chains demand an innovative approach to provide the space and operating conditions that support consumer expectations for fast, efficient delivery of goods. Coordinated responses from councils and state governments can support greater density development in strategic locations while protecting the character of local suburbs.

Recommendation:

The Strategy must prioritise the supply of well-located, serviced industrial land and assets if it is to meet its objective of improving the efficiency, effectiveness and reliability of Australian supply chains.

Decarbonisation

The consultation paper notes that the updated Strategy and National Action Plan will need to incorporate decarbonisation in its policy framework to ensure the Strategy remains fit for purpose in the current environment, but only focuses on the transport sector as the third largest source of greenhouse gas emissions.

However, the built environment accounts for 23% of Australia's greenhouse gas emissions but presents some of the lowest cost, and largely untapped, opportunities for broad emissions reductions.

Australia's sector leaders have set ambitious emissions reduction targets. Many are moving towards net zero at speed. Large-scale investment in energy-efficient design and construction have made inroads into the sector's carbon footprint.

An enormous opportunity for Australia remains hidden in plain sight. With their vast roof space, industrial and logistics facilities can harvest more solar energy than they consume. However, they need the right policy settings to become renewable energy powerhouses.

As Australia moves towards net zero by 2050, electrification is inevitable. Most industrial and logistics occupiers are already moving toward electrification of their fleets, processes and spaces in line with the broader energy transition taking place around the world.

The Property Council's members have also been working with National Australian Built Environment Rating System (NABERS) to create a rating tool that was launched in late 2022. The energy rating tool can rate the energy efficiency of warehouses, cold stores, and combined facilities. It provides an excellent benchmark for the industry to target higher standards in energy efficiency and a pathway to continuous emission reductions and establishes accountability in industrial assets.

Failure of the updated Strategy to recognise the decarbonisation opportunities within industrial assets would undermine the achievement of reducing greenhouse gas emissions to 43 per cent below 2005 levels by 2030 and net zero by 2050.

Recommendation:

The Strategy must broaden its approach to decarbonisation and work with industrial asset owners to establish the policy settings to become a renewable energy powerhouse.

We welcome the opportunity to discuss this submission in more detail and provide a confidential briefing on our research report "Winning the Supply Chain Revolution" that expands on the points made in our submission. [REDACTED]

Yours faithfully

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Matthew Kandelaars

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