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# 2018 | LOGISTICS REPORT

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# THE EVOLUTION OF THE LOGISTIC SECTOR

According to the World Bank's Logistics Performance Index (LPI): "Logistics is understood as a network of services that support the physical movement of goods, trade across borders, and commerce within borders. It comprises an array of activities beyond transportation, including warehousing, brokerage, express delivery, terminal operations and related data and information management." Logistics affects a country's economic growth, as well as its competitiveness. An effective logistics industry results in ease of doing business, while creating potential for domestic and international market integration and in turn also reducing the cost of trade.

The logistics sector is growing globally and locally, with warehousing and distribution centres becoming the front runner in the industrial landscape. E-commerce and technological enhancements are causing the sector to evolve and adapt, with consumer behaviour and globalisation playing a role in this changing environment. Global logistics companies are expanding their reach and footprint into both emerging and mature markets, while responding to consumers' evolving needs. E-commerce continues to impact on consumers' needs, resulting in supply chains using multiple channels. Consumers now expect last-mile services, same day as well as next day deliveries, even though a vast number are likely to select the cheapest and possibly slowest option. The logistics industry has had to respond to these demands.

The logistics workforce is also becoming tech-savvy, with millennials (those born in the 80s and 90s) expected to drive changes in terms of equipment as well as management techniques over the next decade. With the integration of technology and material handling equipment, cyber security is

becoming increasingly important as automation and robots are likely to become the norm (as briefly indicated in the [Broll Future of Retail Report](#)). The presence of warehouse robots will not only improve efficiency, but will also impact on e-commerce, as products can be moved faster.

An evolving trend which has been evident in America is "ride sharing" with Uber-like apps available for the transportation of goods, e.g. Cargomatic, DashHaul, LaneHoney and Transfix. Essentially, these apps connect shippers and carriers and allow for real-time freight tracking, alerts, reports and analytics, upfront rates, quick automatic payments and more. A shipper is able to see trucks which are close by and make a booking at the click of a button. By using a weighting system the carrier is able to ensure there is space for the client's goods, which can then be transported. Similarly, carriers are able to see shipments which are available and ready for collection en route, thereby reducing the number of half-empty trucks, while the carrier also has the option to select the jobs it wants.

As the logistics industry evolves so too does the design of warehouses<sup>1</sup> and distribution centres<sup>2</sup> (DCs). "Green" buildings are not only a trend in office buildings but also within the industrial sector. Factors such as lighting, building insulation, water conservation and solar panels are increasingly becoming sought-after for an increased green footprint, as well as potential cost-saving measures.

<sup>1</sup>A warehouse is planned space which is used for the temporary storage of products which can be either raw materials or manufactured goods. Warehouses don't deal with external clients and emphasis is placed on storage.

<sup>2</sup>A DC offers value-added services including the like of cross docking, packaging, product mixing and more. DCs also store products, although generally for a shorter time period in comparison to warehouses, and emphasis is placed on the moving of goods to either wholesalers, retailers or even consumers.





According to market experts, various aspects need to be taken into account when designing and developing green facilities, some of which include, but are not limited to:

### Intended Use

The intended use of the facility plays a vital role in determining design aspects. Defining goals and objectives, determining the quantity of products which will be coming in and out of and stored at the facility, the manner in which products will arrive, i.e. in containers or pallets, whether this will be a refurbishment of an existing facility or a green field development, all make a difference in terms of warehouse/DC functionality requirements and assist in determining the best layout and design.

Determining the intended use of the facility, as well as its potential use will also assist in calculating the right amount of power needed. The growth of technological enhancements and automation in the industrial sector, including robots, also need to be taken into account.

### Equipment Selection

An investigation into what equipment and systems best suit the company which will be taking up space within the facility needs to be undertaken, as this affects the design specifications. There are many options available, from conventional systems to high-velocity automated systems, as well as various types of mechanical equipment ranging from conveyors to carousels and cranes. An understanding of available options, current and future technological enhancements, etc. need to be achieved with the assistance of professional experts so that the warehouse/DC is designed effectively and efficiently.

Safety equipment is also an important aspect to consider, as safety regulations are vital within any development. Smoke detectors, fire suppression systems, sprinkler systems, dock locks to keep trailers locked and secured, communication equipment such as red/green light systems for drivers within the facility, all

need to be functional, maintained and adequate for the intended use of the facility.

### The Flow of the Facility

One-way flow warehouses tend to be the best operationally - regardless of the orientation of the flow (e.g. clockwise, counter clockwise, up or down). Additionally, storage capacity in a facility should not take precedence over the free movement and flow of the space. Once a facility is up and running it needs to operate efficiently - the design should not be compromised to accommodate more stock, as this may end up affecting optimal performance.

### More Touches = More Costs

The more “touches” an item receives, the more it costs. Product handling should be minimal while products are in the warehouse/DC – ideally between three to five touches. Correct building design can facilitate this.

### Physical Attributes

Aspects such as correct ceiling heights, column spacing, the type of floor, correct yard size and sufficient parking bays all need to be determined.

- Increased ceiling heights seem to be becoming the norm in order to optimise warehouse/DC capacity to accommodate more pallets and racks. This can be partly attributed to technological enhancements as well as an increasing e-commerce environment in which shippers are expanding their product mix within the same warehouse/DC. In addition, building vertically tends to be cheaper than building horizontally.
- Correct column spacing assists with optimal functioning of a warehouse/DC. If the spacing is too narrow it could be problematic for equipment such as forklifts, while if the spacing is too wide then space is not being optimally used.

- While older warehouse/DC floors were made of rough concrete slabs which needed to settle and would generally crack and chip, modern floors tend to be made from specialised concrete which has a smooth, flat and sheen finish. Modern warehouses with ultra-high ceilings have floors that are laser-skimmed. This is very costly but is offset by the higher throughput rate that a high ceiling allows for. These types of floors enhance the floor-load capacity with other benefits including higher and tighter rack configurations, efficiency in material handling equipment, as well as faster and smoother movement.
- Trailer and employee parking need to be taken into account when designing. Both current and future requirements need to be considered. If cross docking is required, sufficient space will need to be provided to ensure efficient movement of vehicles. Designated storage drop areas may be required and seasonal needs must be taken into account, as an increased number of vehicles could be required during busier periods.

## South African Logistics Sector

The South African logistics sector is changing rapidly and impacting directly on the locational decision of investors and tenants alike. Some key drivers influencing location selection are:

- Proximity to major consumption centres, as access to global and local trade is of utmost importance.
- Regulatory environment.
- Changing demographics and increasing levels of value-added services enhance the importance of proximity to all spheres of the labour market (skilled and unskilled).
- Transport infrastructure.
- Total cost to value as investors and tenants are increasingly considering total supply chain costs.

Once the locational decision has been made, companies that require warehouse/DC space will consider additional factors. These include:

- The layout and amenities (warehouse, offices, ablution facilities) of the property;
- The flow of goods in and out of the warehouse;
- The size of the warehouse and office facilities which will depend on the business of the company;
- The cubic area for stacking purposes;
- Depending on the product, a company may also require refrigeration or air-conditioning.
- Space for equipment such as dock levellers and forklifts;
- Access and manoeuvring area for super-link trailers (about 1,500m<sup>2</sup> to 2,000m<sup>2</sup>);
- Additional yard space for storing containers, pallets etc.;
- Sufficient fire extinguishing equipment - extinguishers (every 30m), smoke detectors, sprinklers, tanks and pumps

- especially for large warehouses with high ceilings handling paper, wood, rubber, chemicals etc.
- Exit doors – installed with fire break glass and a self-opening lock in case of emergency; and
- Security which includes:
  - Remote-controlled security;
  - State-of-the-art camera systems overlooking the entire warehouse internally and externally with no blind spots;
  - A secure room for the storage of recordings of footage of warehouse activity (saved every 24 hours);
  - Preferably palisade fencing around the property with electrical fencing on top (street frontage);
  - Dedicated security services; and
  - Controlled access system with cards to only be allocated to warehouse staff.

Furthermore, the size and location of the warehouse space depends on the percentage of shipments arriving by ocean container, full truckload, less-than-truckload (LTL) and package delivery. Other factors that will be considered include the amount of air freight, how often they need to consolidate LTLs, as well as the amount of cargo that is palletised and ready for storage or transport vs. shipments that need to be sorted and re-packed.

In addition, the demand for increased ceiling heights is evident in new supply coming onto the market. Older buildings may have had eave heights of around 8m for standard warehousing and 11m for DCs. However, over the last year heights have increased to around 13.5m where high heights have been required with some newer DCs, measuring up to 15m.

## Important Logistic Nodes

### Johannesburg and Surrounds

Johannesburg is regarded as the country's main economic hub and contributes around 16% of South Africa's GDP and 40% to the provincial GDP. As with the rest of the country, the city's economy shifted gradually from a mining-dependent town to an economy largely dependent on the tertiary sector, especially through the retail and service industry sectors. A further shift can be noted. The local economy is becoming more knowledge-based, with a focus on technology, e-commerce and financial services.

The shift in economic activity is evident in the property sector and in particular the industrial sector, with the number of new logistics-related developments forming the backbone of new supply coming onto the market. These developments are mainly focussed along the N1/N3 Corridor which includes Louwlandia, Samrand, Midrand (in particular Corporate Park and Lord's View along Alandale Road), Waterfall, Linbro Park and Longmeadow Business Estate.

Logistics is a big part of most businesses where storage and distribution of stock is a requirement and newer developments are focussed on this. The bigger developers and large-portfolio landlords are very competitive in terms of what they offer their clients. These include lower rentals and other perks such as solar power.

The newer properties all seem to have a few things in common. These include being in a secure industrial park with modern features (fibre, secure access and 24-hour surveillance and security) and high-end, modern office components. The warehouses all have fire protection, interlink reticulation and cross docking, as well as a combination of on-grade and dock levelled roller shutters. New developments include high-quality floors (high load-bearing and levelled) and eaves heights of between 12m and 15m, modern ablutions and kitchenettes and power supplies that cater for large-scale utilisation.

The older warehouses catering for logistics have inadequate roller shutter doors, interlink/superlink access and circulation around the property, poor office quality and security which increase the vacancy period for these buildings. The demand for space is increasingly focussed on logistics parks and modern facilities are gaining popularity in this corridor. New and recent entrants to the corridor include network providers (Cell-C, Vodacom), DHL and well-known franchises such as H&M, as well as large fresh produce franchises such as Pick n Pay and Woolworths.

Other prominent logistics nodes include the R21 Corridor which includes Pomona, Plumbago Business Park and Eastport and Gosforth Business Park. These nodes are easily accessible from the freeways and are in close proximity to the airport and City Deep Inland Port.



The abovementioned nodes keep on attracting the attention of major logistics developers/owners such as Fortress, Equites, Growthpoint, Improvon, JT Ross and Attacq to name a few. However, there is currently limited prime land available with good frontage. Future developments will therefore have to compromise on location, access to freeways, land costs and servicing costs. Notwithstanding this, the corridors and nodes still remain popular due to their proximity to markets and transport networks.

## Durban and Surrounds

The main logistic areas within Durban are in the southern and northern industrial basins, with the area to the north of the city the most active in recent years. Areas in the north include Riverhorse, Briardene, Redhill, Springfield Park, Umgeni Business Park, Mt Edgecombe, Glen Anil and Cornubia. The Southern basin consists of Congella, Jacobs, Moberni, Maydon Wharf, Prospecton, Isipingo, Southgate and Umbogintwini.

One of the main constraints for development in Durban is the limited availability of flat, zoned industrial land, making it extremely pricey compared to other cities. Developers are having to come up with creative ways of increasing yields on these buildings - for example, placing docking doors and dock levellers at 45 degree angles to the yard traffic flow to lessen required yard and increase yields. Another huge challenge in Durban is that industrial land costs are by far the highest in the country, placing further upward pressure on gross rentals, with gross rentals for new-build high-spec DCs exceeding R80/m<sup>2</sup>.

However, this has not deterred development, with new developments currently underway.

Two of these developments are:

- Northfields Business Park, the extent of which is around 30 hectares. The park, which is situated at the interchange that leads to KwaMashu, Bridge City and the N2, linking it to the King Shaka International Airport, is being developed by JT Ross.

Warehousing facilities, ranging from 5,000m<sup>2</sup> to 50,000m<sup>2</sup> with roof heights of between 12m and 16m will be developed to spec.



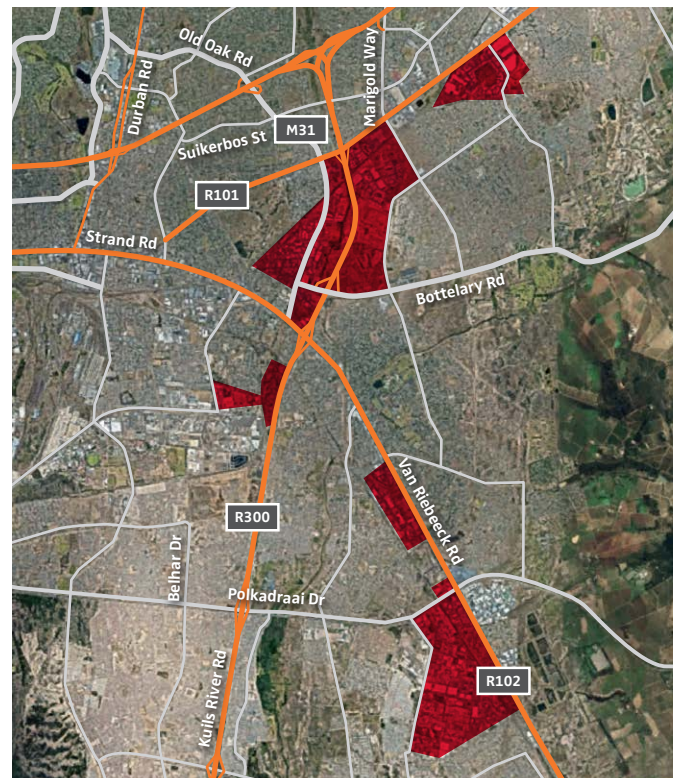
Source: JT Ross Property Group

- The Brickworks – just up the road – is a 60hectare industrial development coming on-stream. It fronts onto the N2 and is accessible off the KwaMashu Interchange, making it easily accessible to the CBD, port, airport and the N3 linking the

development to Gauteng. The proximity of the development makes it well-suited for warehousing and distribution centres.

## Cape Town and Surrounds

One of the two prominent logistics areas within Cape Town is the R300 Corridor which includes the industrial nodes of Brackenfell, Stikland Blackheath, Kuilsriver and Bellville South. These nodes are easily accessible off the R300, N1 and N2, making this a preferred location for logistics and distribution. This corridor has been determined as the COG (centre of gravity) by a number of large logistics companies. Traditional logistics areas such as Epping and Montague Gardens are becoming increasingly congested and land available for commercial development within the Cape Metropole is becoming increasingly scarce, with few parcels of land remaining that are usable for commercial purposes.



The demand for space has been good over the years, with supply increasing with the release of North Point Industrial Park and Brackengate 2, Bellville Industrial Park, Mill Road Industrial Park, Zevenwacht Business Park and Range Industrial Park. Supply includes speculative developments, land parcels for sale and developments on demand. There has been strong take-up of large specialised warehouses in excess of 2,500m<sup>2</sup>, especially by national tenants and owner occupiers.

The Brackenfell and Stikland, Blackheath and Kuilsriver areas are considered the preferred locations for logistics as well as storage and distribution orientated industries, with a number of companies relocating to the region. Brackengate Business Park 1 and 2 are evidence of this trend with tenants such as BAT, DSV and Food Lover's Market Distribution Centre located there. Additionally, Shoprite's substantial distribution centre (approximately 123,000m<sup>2</sup>) is situated adjacent to Brackengate, on a 35-hectare tract of land along the R300. This distribution park, comprising three units, is regarded as one of the most technologically advanced facilities on the continent. Dischem also have its 15,000m<sup>2</sup> distribution centre in the area.

## Port Elizabeth and Surrounds

The main logistics node in Port Elizabeth is located within the Coega Special Economic Zone (SEZ) which offers investors "world-class infrastructure, tax incentives, rebates and a duty-free zone". The SEZ is being operated by the Coega Development Corporation which is a State Owned Company mandated to develop and operate the 11,500 hectares SEZ. The zone, adjacent to the Port of Ngqura, a transshipment hub facilitating trade with the rest of Africa, is divided into different clusters in order to link related industries and supply chains for increased efficiency.

The SEZ has been in operation since 1999 with a number of developments already completed and others under construction or in the pipeline. Existing tenants include Famous Brands, DSV Sun Couriers, ID Logistics, Digistics, FAW and Vector Logistics.

Source: Coega Development Corporation



# 2018 Logistics Report

## Divisional Director Research

Elaine Wilson

☎ +27 11 441 4083

✉ [ewilson@broll.com](mailto:ewilson@broll.com)

## Head of Industrial Broking – Gauteng

Braydon Aab

☎ +27 11 441 4511

☎ +27 82 603 3942

✉ [baab@broll.com](mailto:baab@broll.com)

## Senior Broker – KwaZulu-Natal

Anthon van Weers

☎ +27 31 362 1779

☎ +27 82 466 9907

✉ [avanweers@broll.com](mailto:avanweers@broll.com)

## Broker – Eastern Cape

Grant Longworth

☎ +27 41 363 5559

☎ +27 83 655 0114

✉ [glongworth@broll.com](mailto:glongworth@broll.com)

## Head of Industrial Broking – Western Cape

Shane Howe

☎ +27 21 419 7373

☎ +27 72 261 1863

✉ [showe@broll.com](mailto:showe@broll.com)

## Head of Broking

Sean Berowsky

☎ +27 21 446 1823

☎ +27 82 810 8950

✉ [sberowsky@broll.com](mailto:sberowsky@broll.com)

**For more information and a full list of sources please email [research@broll.com](mailto:research@broll.com)**

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