

Future Cities

Australia's E-Commerce Trend and Trajectory

UPDATE

REPORT

Insights

CBRE RESEARCH
SEPTEMBER 2022

CBRE



Key themes

- 01 **Recent growth of e-commerce.**
- 02 **What factors are driving e-commerce growth?**
- 03 **What has been the impact of COVID-19?**
- 04 **Will e-commerce continue to grow?**
- 05 **What will be the impact on industrial and logistics property?**



01

Recent growth of e-commerce

Australia retail market size

How big is Australia's e-commerce market?

The e-commerce sector globally has increased significantly between 2016 and 2021, by around 133%, and totalled AUD 3.1 trillion in 2021. Global online sales now make up 20% of total retail sales.

Over the same period, Australia's e-commerce sector increased by 122% (or AUD 29 billion). Online sales now accounts for 14.3% of total retail spend (as at July 2022).

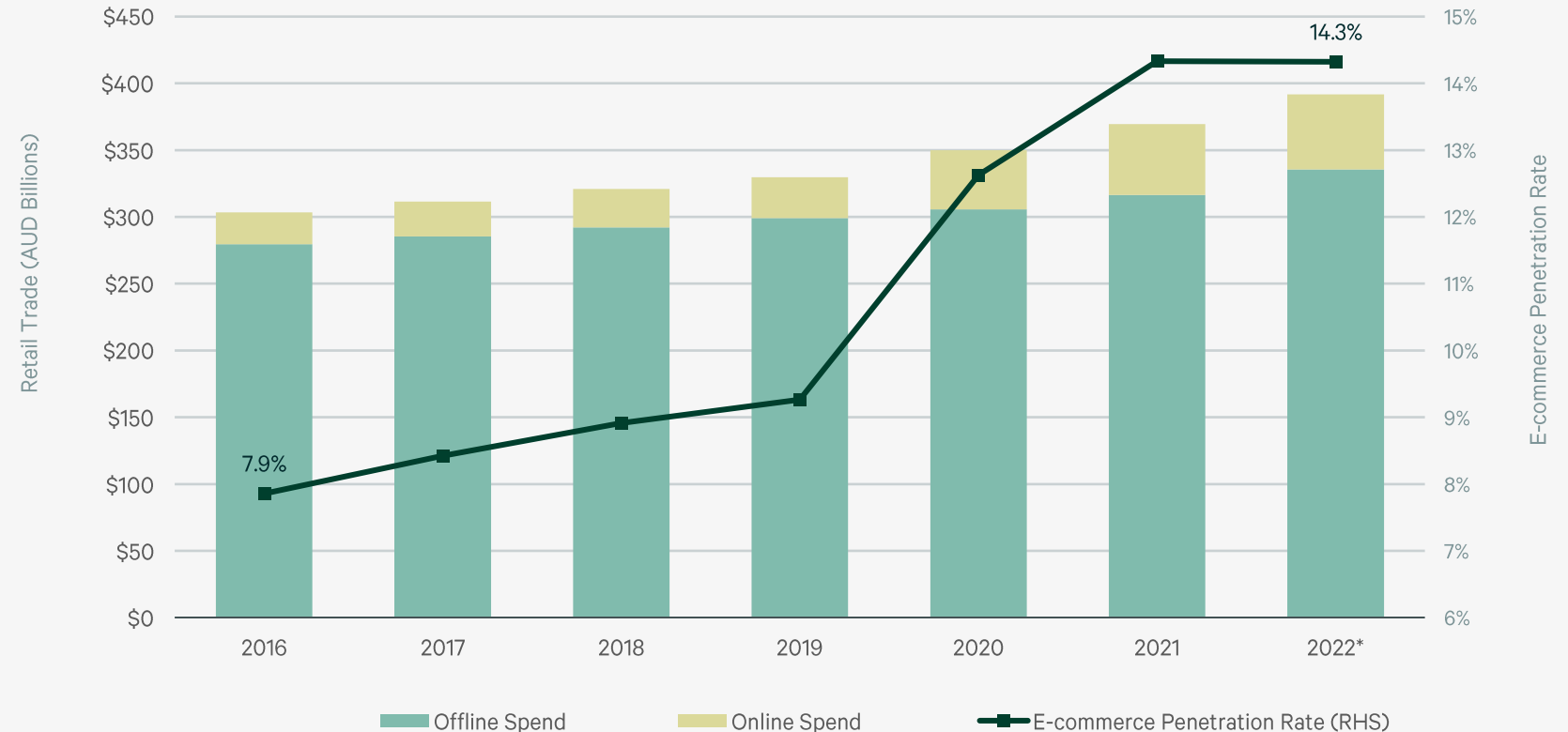
73% increase

In e-commerce sales during the first two years of the pandemic (2020-21)

14.3%

Australia's e-commerce penetration rate (as at July 2022).

Australia retail trade spend (offline and online) and e-commerce penetration rate



* Retail spend in 2022 reflects 12 months to July 2022
Source: NAB, ABS, CBRE Research

Growth in online spend is stabilising

Online retail trade continues to grow, however over the past 6 months the rate of growth is beginning to slow. As a result, the penetration rate has remained relatively stable since December 2021.

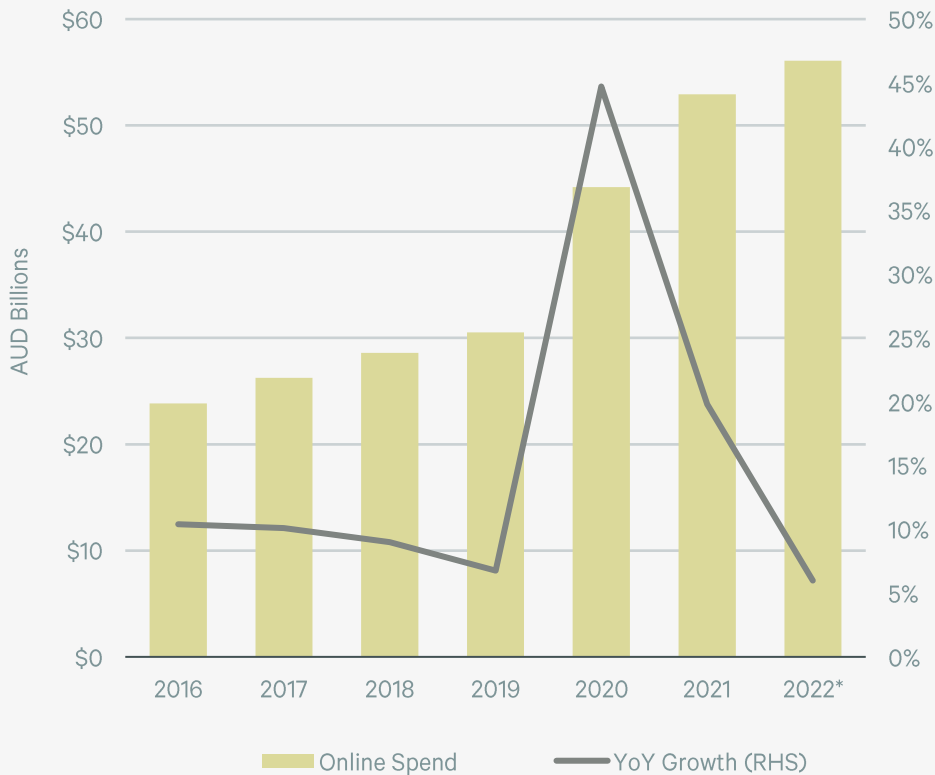
Household participation in online shopping remains steady, reflective of the long-term structural shift in consumer behaviour.



+35%

More Australian households are buying online compared to January 2020.

Online retail spend in Australia, 2016-2022*



* Retail spend in 2022 reflects 12 months to July 2022
Source: NAB, CBRE Research

Top 3 markets

With the highest growth in household participation in online shopping between January 2020 and December 2021.¹

- 1 NSW
- 2 ACT
- 3 NT

Top suburbs

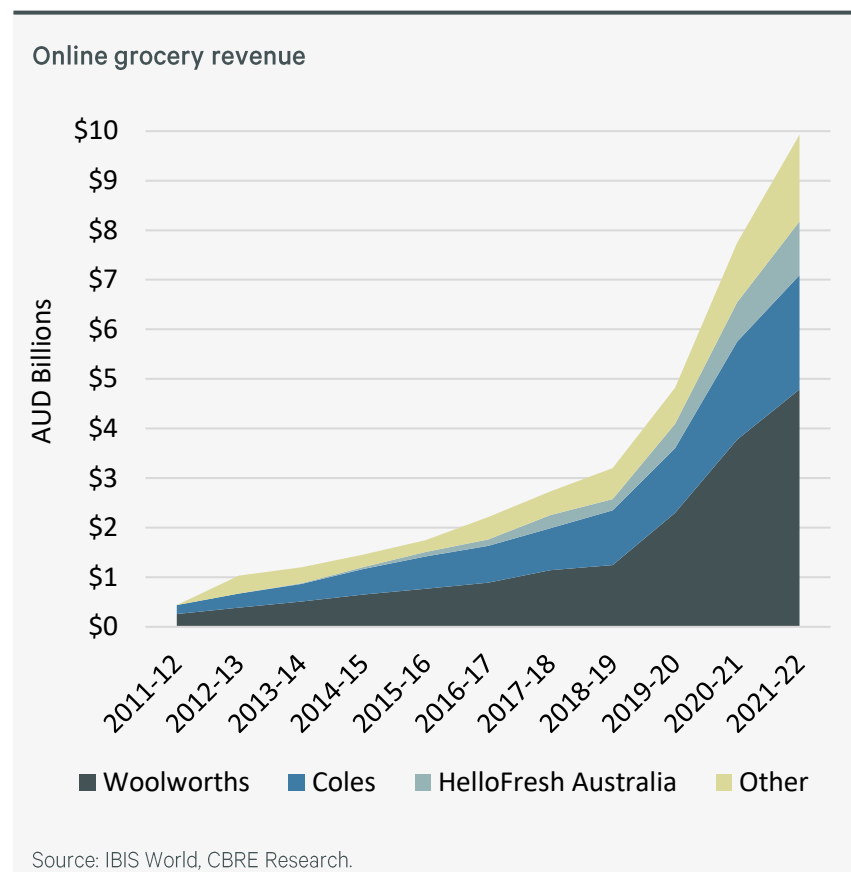
With the highest online purchase volume in 2021.¹

- 1 Point Cook, VIC, 3030
- 2 Liverpool, NSW 2170
- 3 Hoppers Crossing, VIC 3029

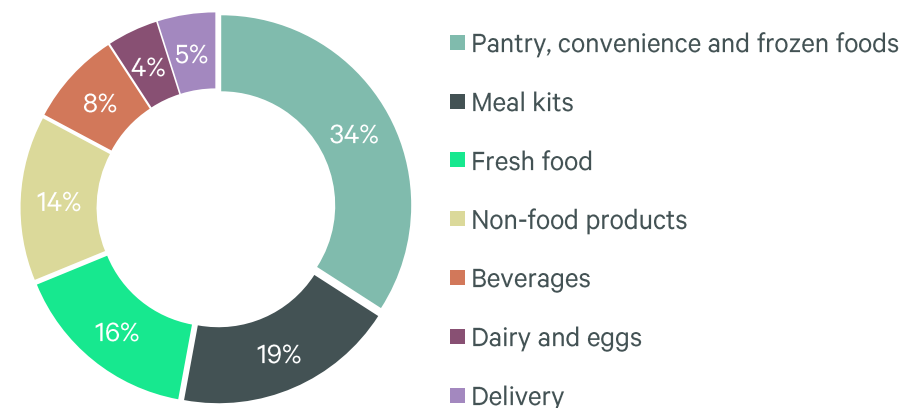
1. Source: Australia Post: 2022 e-Commerce Industry Report

The online grocery sector continues to grow

Online grocery revenue totalled almost AUD 10 billion over the FY2022 – more than double what was recorded in FY2020.



Online grocery sales, share of products and services (FY2022)



Source: IBIS World, CBRE Research.

Online grocery accounted for 20% of total online retail spend in 2021.¹

This sub-sector is still in a growth phase, with the **online grocery penetration rate** only at **3%**.

1. CBRE Research.

02

What factors are driving
e-commerce growth?

E-commerce drivers

Factors linked with the growth of e-commerce

We explored **28 factors** and split the top ones into **four basic categories**



Demography

- Urban population
- Population density
- Employment in services



Usage

- Digital skills of the population
- Internet usage
- Mobile internet sales share
- Dominant e-commerce player



Cultural payment preference

- Credit/debit card use
- Digital payments
- Online bill pay
- Digital wallets use



Infrastructure access

- Fixed broadband subscriptions in market
- Transport infrastructure
- Timeliness of shipments

Six key penetration drivers

We identified six factors that better explain the different levels of e-commerce penetration among markets

01

% of urban population

High

02

Mobile internet sales ratio

Low-Mid

03

Debit and credit card use/use of digital wallets

High

04

Digital skills of population

High

05

Dominant e-commerce player

Low-Mid

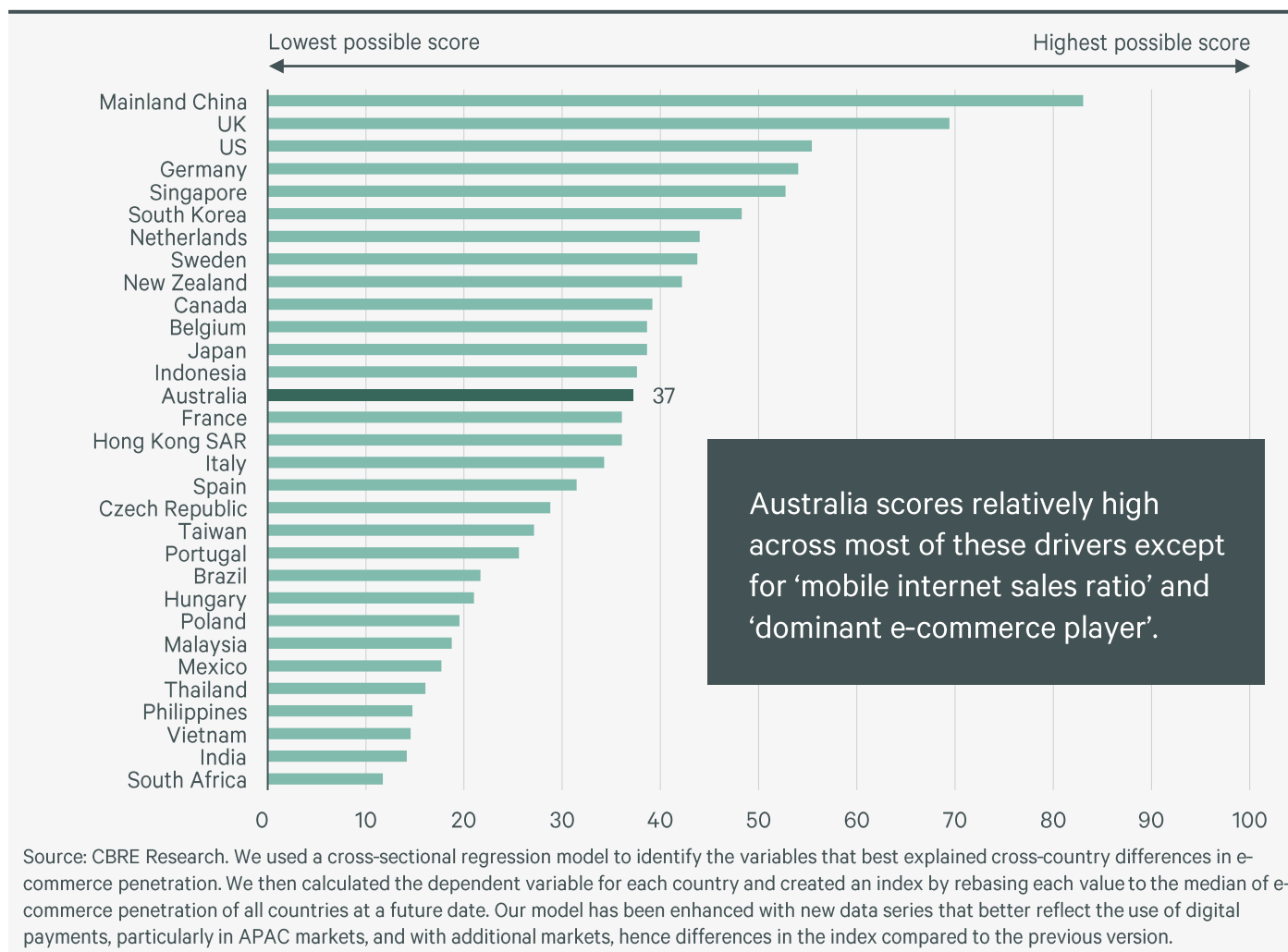
06

Fixed broadband subscription/population

High

CBRE Global e-commerce drivers index

We created an index that measures the strength of the presence of these six key e-commerce drivers in different markets.



E-commerce Drivers Index

How prepared is an economy to support e-commerce?

Key e-commerce drivers

Demographics

- % of urban population

Usage

- Digital skills of population
- Mobile internet ratio
- Dominant e-commerce player

Cultural

- Credit and debit card use/ digital wallets

Infrastructure

- Fixed broadband subscriptions

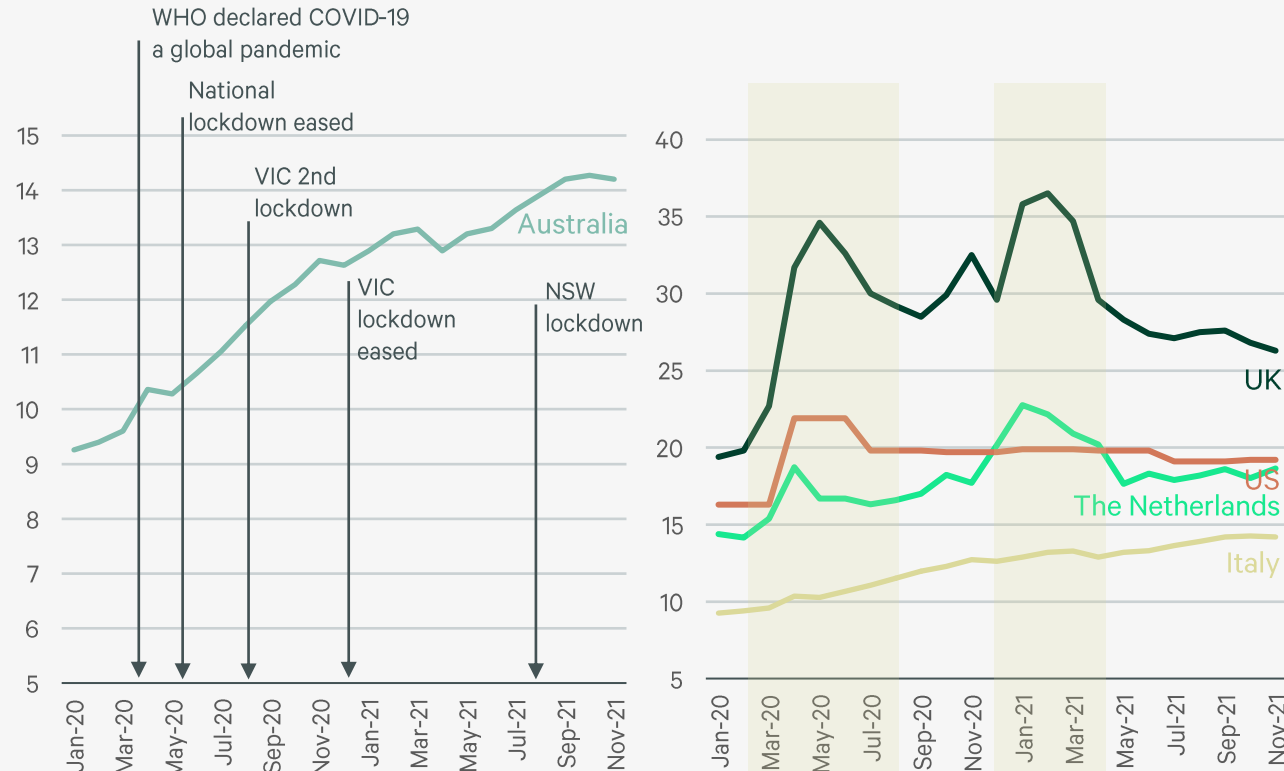
03

Impact of COVID-19

Internet sales increased rapidly during the pandemic with a lasting effect

Examples from the U.S. and Europe

Internet sales as a % of total retail sales



Source: Macrobond, Eurostat, US Census, NAB, ABS, CBRE Research.

Markets with a stronger presence of e-commerce drivers experienced higher peaks of online penetration during the pandemic.

Penetration rates have eased more in other major markets following the lifting of Covid restrictions.

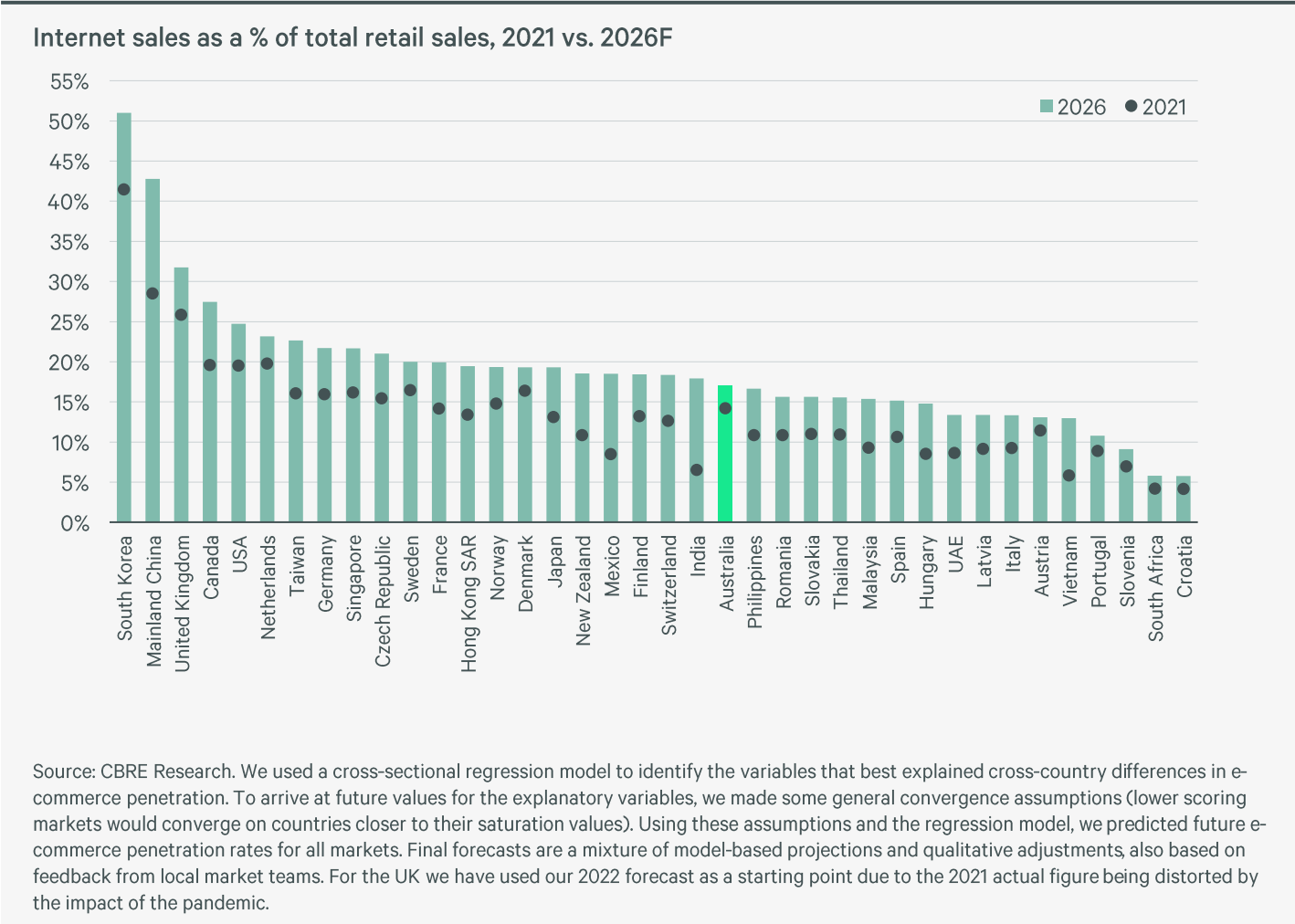
Australia's e-commerce penetration rate has sustained.

04

Will e-commerce
continue to grow?

CBRE e-commerce forecast

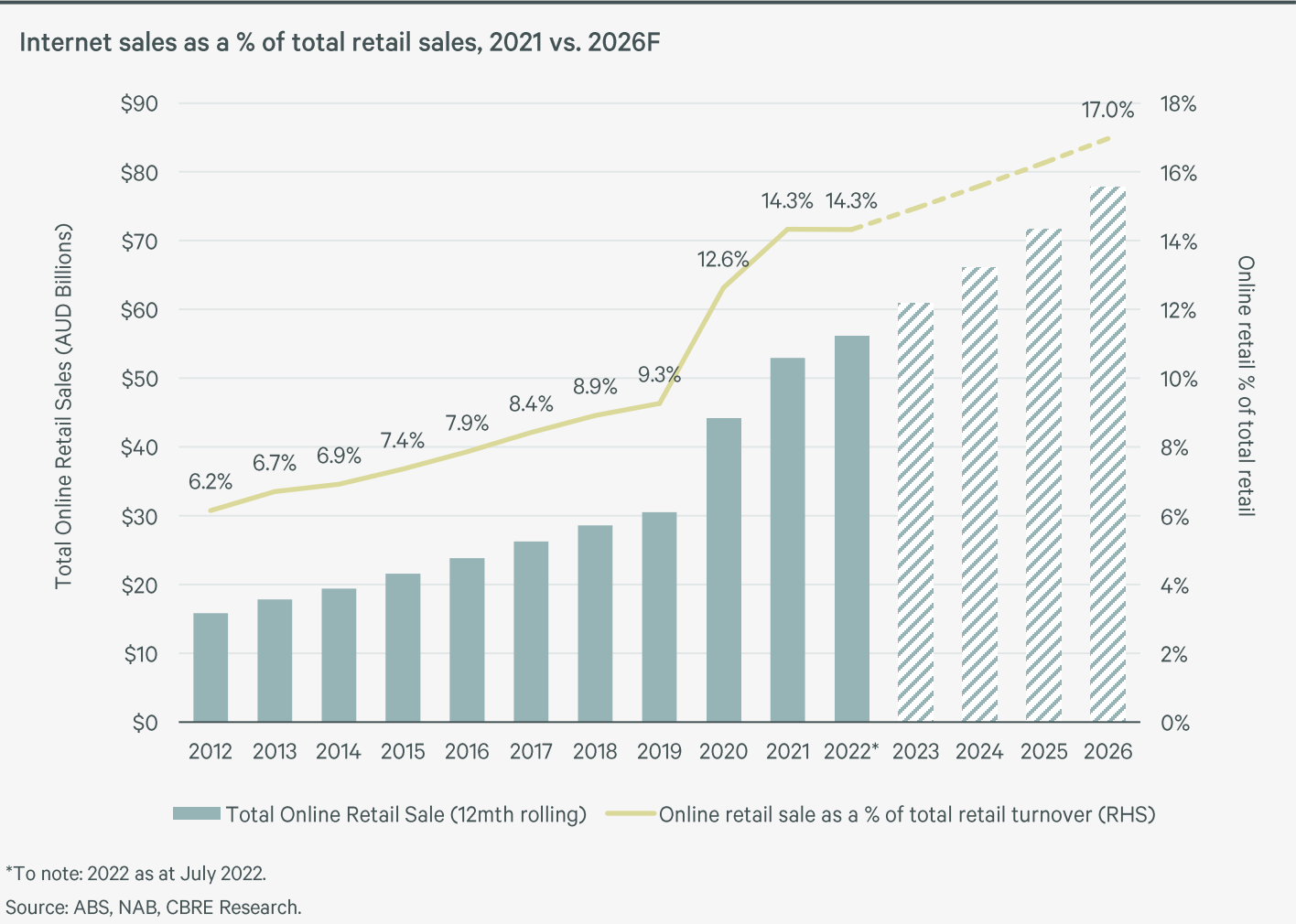
By predicting how the six key e-commerce drivers will evolve over time in different markets, we produced a forecast of e-commerce penetration rate per market.



Australia's e-commerce market is still in a growth phase. Australia's e-commerce sector is less established and will continue to catch up as the presence of e-commerce drivers in this market increases.

Australia e-commerce forecast

E-commerce will continue to grow, however at a lower rate than what was recorded between 2020 and 2021.



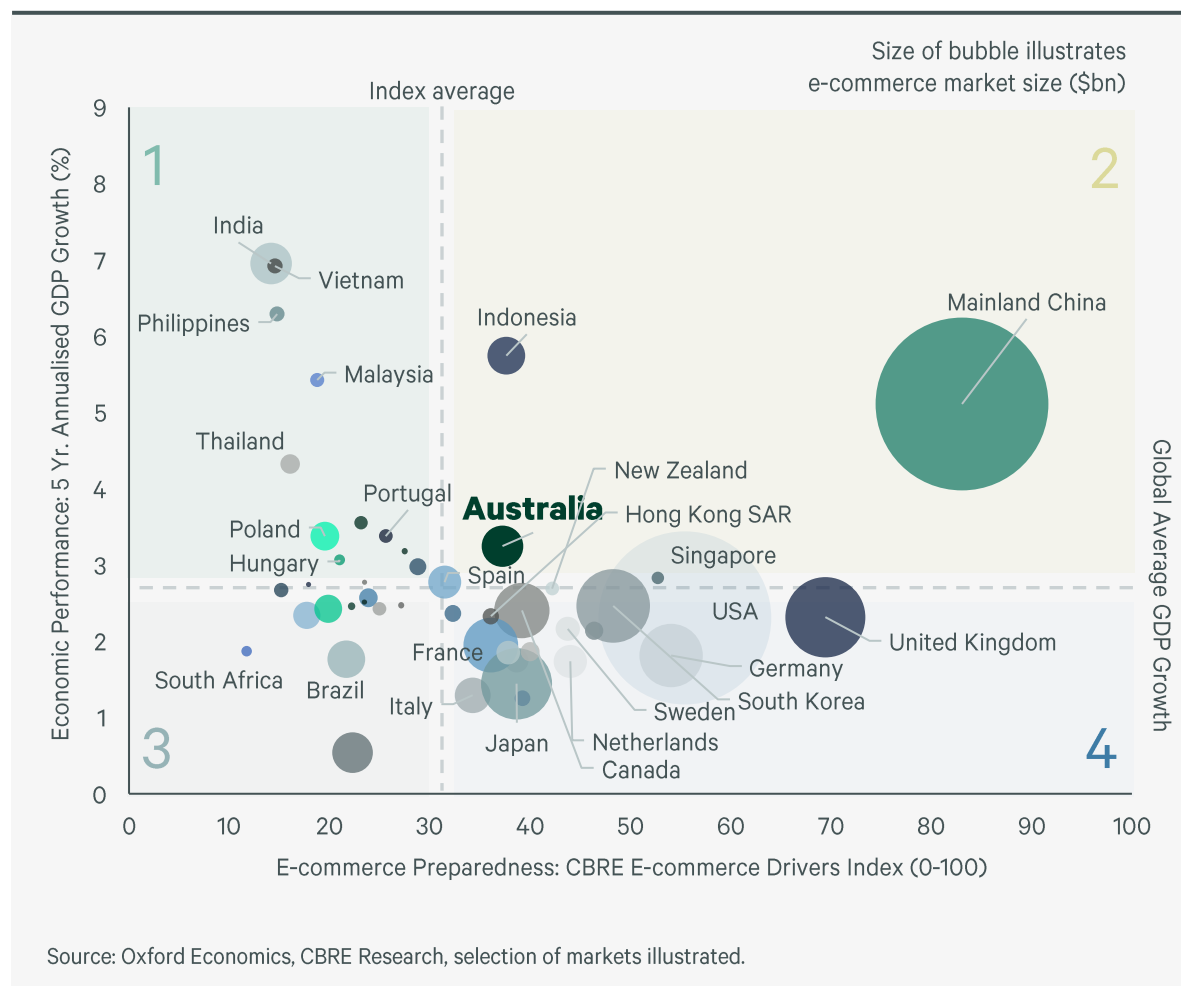
Australia's e-commerce penetration rate is forecast to reach 17% by 2026.

05

Impact on industrial and logistics property

Logistics property sector performance drivers

Macroeconomic outlook and e-commerce preparedness driving logistics sector's performance and demand for space.



QUADRANT 1

- Above global average economic growth supporting spending with lower levels of e-commerce penetration and presence of e-commerce drivers.
- Slower transition from traditional retail to e-commerce.
- Infrastructure supporting e-commerce less developed. Demand for logistics space lower but gradually increasing.

QUADRANT 2

- Above global average economic growth supporting consumption. Higher levels of e-commerce penetration and stronger presence of e-commerce drivers.
- Accelerated transition from traditional retail to e-commerce driving strong demand for logistics space.
- Stronger presence of established online retailers.

QUADRANT 3

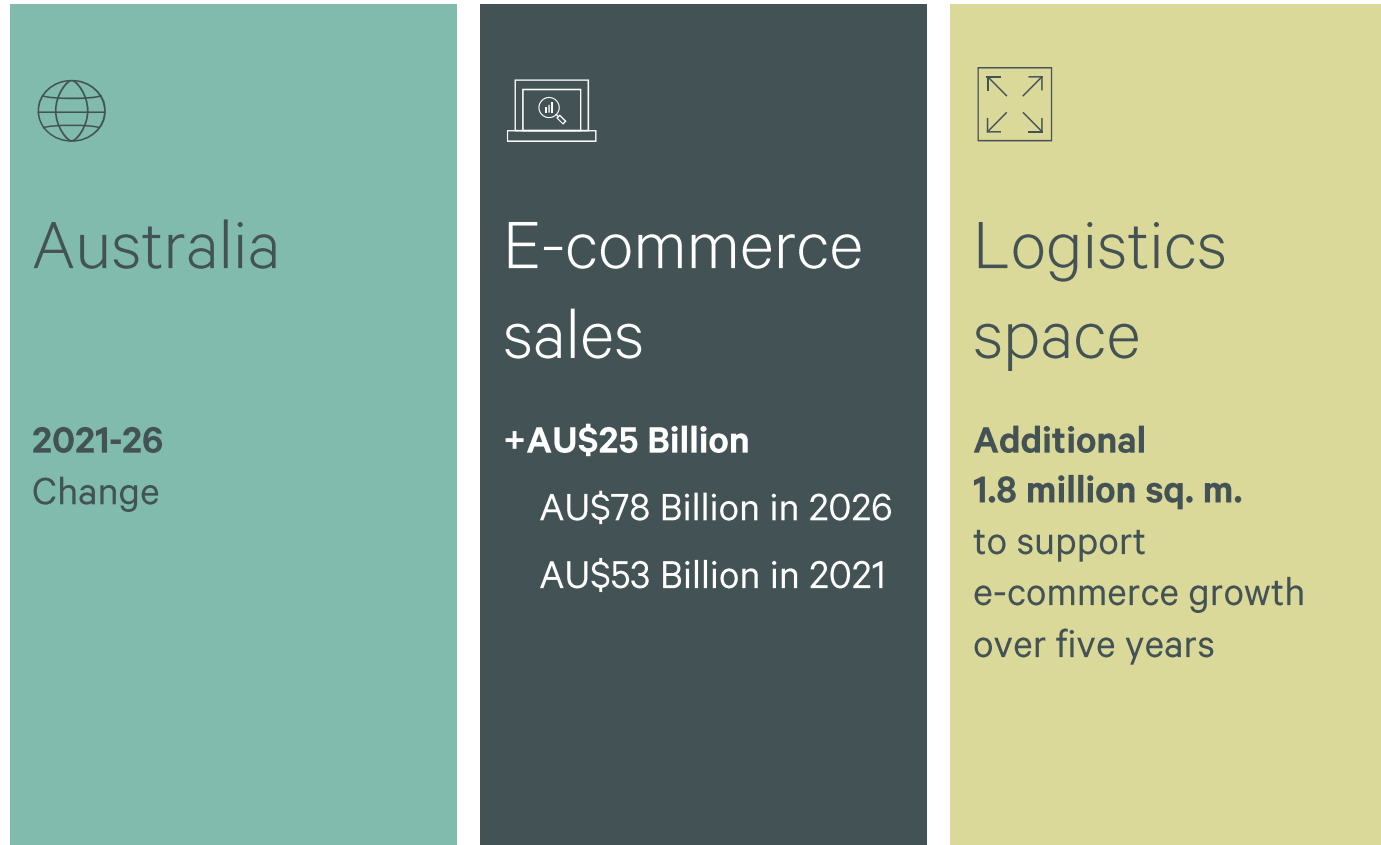
- Below global average economic growth affecting consumption combined with lower levels of e-commerce penetration and presence of e-commerce drivers.
- Slower transition from traditional retail to e-commerce.
- Infrastructure supporting e-commerce less developed.
- Certain retailers acting as online market pioneers.

QUADRANT 4

- Below global average economic growth in an environment of high e-commerce penetration supported by strong presence of drivers.
- Accelerated transition from traditional retail to e-commerce driving strong demand for logistics space.
- Stronger presence of established online retailers.

Logistics space requirements global forecast

Estimated
5 year space
requirements
due to
the growth
of e-commerce



Source: CBRE Research.

E-commerce sales forecast is based on our forecast of e-commerce penetration rate. Our calculation assumes an estimate of AU\$1 billion of additional e-commerce sales requiring an additional 70,000 sq. m. of logistics space.

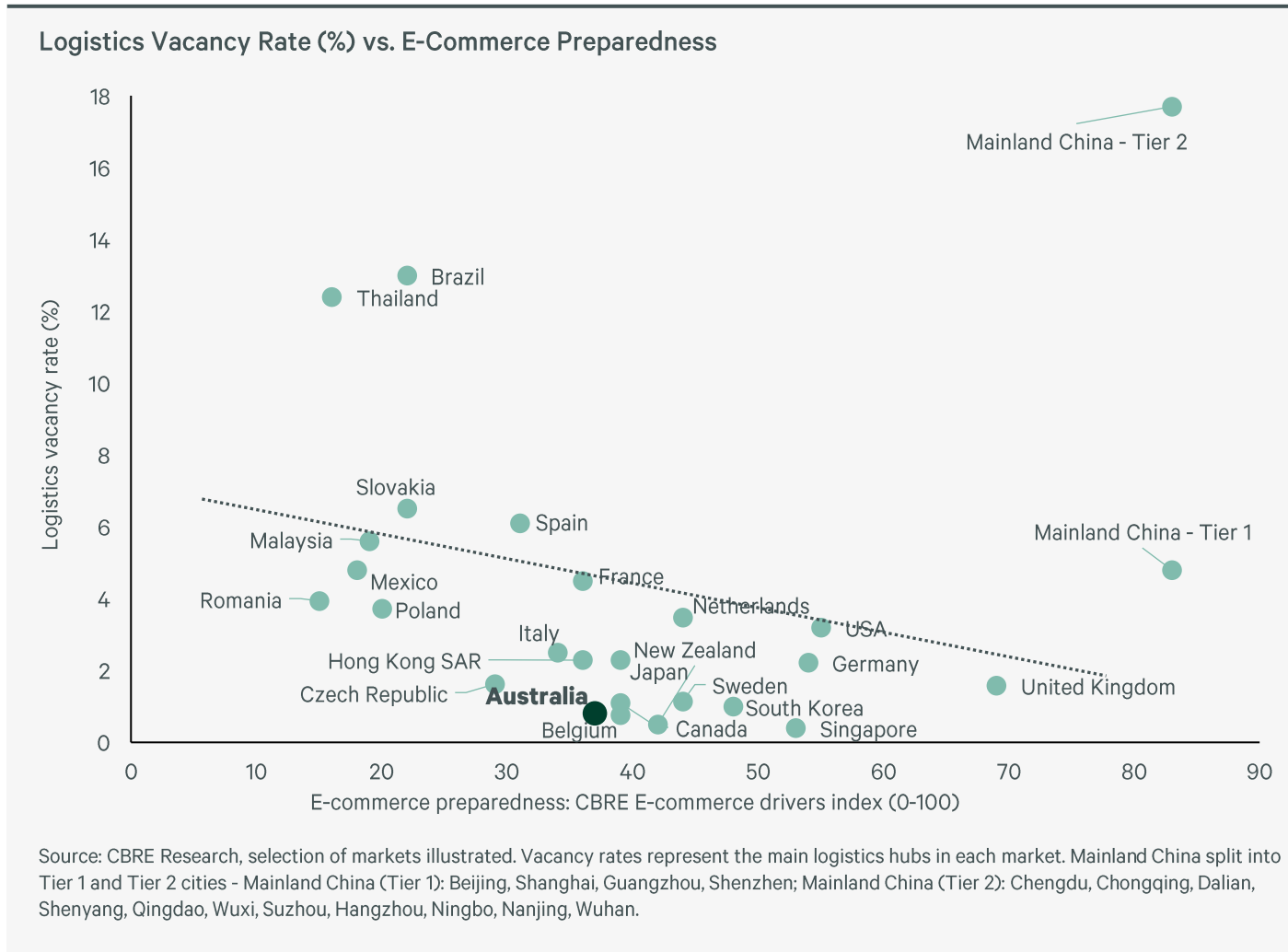
AU\$1 billion of additional e-commerce sales requires an additional **70,000 sq. m. of logistics space**

Over the next five years, 1.8 million sq. m.

of additional e-commerce dedicated logistics space will be required in Australia to support the growth of internet sales.

E-commerce adoption consumes logistics space

Logistics
property
supply



E-commerce adoption requires large amounts of logistics space, which reduces the logistics vacancy rate.

Australia's vacancy rate is the lowest globally at 0.8%.

The stronger the presence of e-commerce drivers in a market, the more difficult it is to find additional logistics space.

Logistics demand exceeds supply and the imbalance translates into accelerated rental growth. Australia's super prime face **rents have increased by 13%** over the year to June 2022.

Supply response is insufficient across all major markets in Australia

Vacancy Rate (%) vs. under construction pipeline as a proportion of total stock



In almost all markets with a low logistics vacancy rate, there is a low amount of space under construction relative to the total existing stock. In Australia this is only **2%**.

Tight supply conditions are therefore unlikely to ease, **resulting in further rental growth - annualised average growth forecast of 6.5% 2022-26.***

*reflects CBRE Research national super prime net face rental forecast

Key points

01

E-commerce has steadily grown in Australia over the past five years.

02

Due to Covid-19, internet sales rapidly increased in 2020 and 2021, though have since moderated.

03

Certain key factors including demography, internet usage, cultural and infrastructure factors are driving e-commerce growth.

04

The Australian market has a stronger presence of e-commerce drivers, and therefore experienced greater e-commerce growth during the pandemic years.

05

E-commerce penetration will continue to grow in the Australian market, to a forecasted share of 17% by 2026, as the presence of e-commerce drivers continues to increase – in particular is the 'dominant e-commerce player'.

06

Over the next five years, 1.8 million sq. m. of additional e-commerce-dedicated logistics space will be required in Australia to support the growth of internet sales.

07

Australia has a chronic shortage of industrial and logistics supply, which is reflected in an all-time global low vacancy rate of 0.8%. Rental growth expectations is high in this market.

08

The Australian market will need to unlock alternative space or intensify the use of available space.



Contacts

Report Author

Sass J-Baleh

Head of Industrial & Logistics Research
Australia and Director of NSW
Research
sass.baleh@cbre.com

Australia Research

Bass Miller

Research Analyst VIC
bass.miller@cbre.com

Sophie Plumridge

Research Analyst QLD
sophie.plumridge@cbre.com

Eza Ranjbar

Senior Research Analyst WA
eza.ranjbar@cbre.com

Advisory & Transactions

Cameron Grier

Regional Director Pacific Industrial &
Logistics
cameron.grier@cbre.com.au

Michael O'Neill

Managing Director Western Sydney
michael.oneill@cbre.com.au

James Jorgenson

State Director VIC
james.jorgenson@cbre.com

Peter Turnbull

State Director QLD
peter.turnbull@cbre.com.au

Capital Markets

Chris O'Brien

Executive Director APAC
chris.obrien@cbre.com.au

Jason Edge

Head of NSW Capital Markets
Industrial & Logistics
jason.edge@cbre.com.au

Jack Pershouse

Director Northern Region
jack.pershouse@cbre.com.au

Rory Hilton

Senior Director
rory.hilton@cbre.com.au

© Copyright 2022. All rights reserved. This report has been prepared in good faith, based on CBRE's current anecdotal and evidence based views of the commercial real estate market. Although CBRE believes its views reflect market conditions on the date of this presentation, they are subject to significant uncertainties and contingencies, many of which are beyond CBRE's control. In addition, many of CBRE's views are opinion and/or projections based on CBRE's subjective analyses of current market circumstances. Other firms may have different opinions, projections and analyses, and actual market conditions in the future may cause CBRE's current views to later be incorrect. CBRE has no obligation to update its views herein if its opinions, projections, analyses or market circumstances later change.

Nothing in this report should be construed as an indicator of the future performance of CBRE's securities or of the performance of any other company's securities. You should not purchase or sell securities—of CBRE or any other company—based on the views herein. CBRE disclaims all liability for securities purchased or sold based on information herein, and by viewing this report, you waive all claims against CBRE as well as against CBRE's affiliates, officers, directors, employees, agents, advisers and representatives arising out of the accuracy, completeness, adequacy or your use of the information herein.