Lighter side of industrial property showing returns

By Johan Piekaar

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Many businesses operating in South Africa are cautiously optimistic for what is in store for the remainder of this year.

There are very real concerns over uncertainty in the country (but also in the world) currently. South Africa faces prevailing challenges in the economy and business markets that precede but are not unaffected by the Covid-19 pandemic and the government-led containment measures that have been implemented - as undeniably and understandably necessary as the measures are to safeguard the lives of citizens – to combat the spread of the virus.

Johan Piekaar, regional director, WSP, Structures, Africa

But it is often darkest before the light – and as history has taught us, some of the most difficult periods have led to great innovations, new approaches and renewed opportunities. As any business leader and investor knows, when looking to grow an avenue of a business – no matter the state of the economy - it is all about managing risk and, managing upfront capital investment versus the long-term return on investment (ROI). And this is the investment approach we continue to see in the light industrial property space.

Steady demand for new and renewed spaces

Over the past several years there has been steady interest and growth in activity in the light industrial property space, including warehousing, storage and distribution centres.

We have seen big retailers, who have been successful even in these trying economic times, developing large and centralised greenfield (new) warehouses and distribution centres. Shoprite was one of the first to move in this direction, and since then other retailers have also looked at similar strategies.

The reason being is that in a difficult market, where pricing is increasingly competitive, businesses are looking for an edge or advantage that will help them stay ahead of their competition. One way to achieve this is through driving efficiencies in how they manage their distribution and supply chains. Through considered and strategic investments in establishing warehouses and distribution centres in good and centralised locations, these businesses are able to be more astute in their procurement and processes. Driving efficiencies can also lead to knock-on cost savings, which better enables these businesses to deliver the best value for money to their end consumers as well.

In addition to the greenfield projects, in the past few years we’ve also seen a number of brownfield light industrial, warehousing and distribution centre projects. Despite the challenging economic times, businesses still recognise the value in strategic expansion and/or refurbishing projects. A lean market can be a perfect opportunity to implement these projects, as companies are often reluctant to take portions of their process offline during peak times.

Property sectors likely to experience most severe pressure from economic recession
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A changed approach to design

While there are constant improvements in design technologies and philosophies (overall) that engineers can offer developers, the trend of the enlightened warehouse and distribution centre developer has in fact been to increase upfront expenditure. Operational costs over the life cycle of a facility are substantially higher than the initial capital costs – where maintenance to joints, repairs to machines and downtime, for example, result in far higher costs over a 20-year period if not designed correctly up front. As such, developers are seeing the benefits of advanced floor technology designed to increase panel sizes, reduce joint linear metres, and improve joint performance through high specification joint products.

Developers have also started to adjust their approach to viabilities from a cost per metre squared to cost per metre cubed or cost per pallet. Developing technology in the lifting equipment that is available has meant that rack heights can be increased, and the marginal additional vertical cost has created more storage volume for the floor and roof area constructed.

Other technologies that are entering the market are solutions such as mobile racking. While this supports slightly slower moving goods due to the time taken to move racks, it can significantly increase storage density. While these systems add to the cost of the initial installation through floor costs, rails and stacking mechanisms, the long-term savings can be substantial. Adding to this, logistic operators have developed sophisticated methods of analysing product flow through a facility, where bespoke solutions can be designed that react to these needs.

In addition, since the operational costs are what drive efficiency, there are always improvements being sought in a constant drive to improve operational efficiency of the overall facility. Such initiatives include, for example, modular approaches to design that better facilitate future expansion - and will reduce impact of future refurbishments – as well as incorporating sustainability design principles, like making use of the vast roof areas available to install PV panels to significantly reduce power requirements.

Global pressures could lead to more digital adoption

Prior to the Covid-19 global pandemic, there have been pockets of growth in South Africa where disruptive technologies, like automation, have been adopted. The reasoning for this can be twofold; firstly, due to the investment cost to implement such technologies, but also importantly, many local operators are also sensitive to the economic status of many South Africans and their inherent social responsibility, where they see the benefit of offering employment to a large workforce and have resisted widespread automation.

For the most part, companies still look to implement a warehouse management system (WMS) or an enterprise resource planning (ERP) system with a strong WMS module, which aid in driving significant improved efficiencies. However, it is widely understood among operators that when implemented correctly, disruptive technologies, including automation, can certainly bode massive workflow and operations efficiency benefits for the facility. And, in light of the impact the Covid-19 outbreak is having on how we work, across industries, research suggests that this is likely to raise issues of supply chain resilience and mitigation, as well as may accelerate the use of automation and robots in operations and reduce reliance on labour.

There is a direct link between the stability of an economy and ongoing development. And while the Covid-19 outbreak is having an impact on productivity and growth across all tiers of the economy in the short-term, South Africa is not alone in this and there is room for optimism. Companies who can afford to adapt and make diligent investments to increase the capacity and efficiencies of their warehousing, storage and distribution facilities to where they need to be – to meet the changing market needs - will be resilient well into foreseeable future.

ABOUT THE AUTHOR

Johan Piekaar, regional director, WSP, Structures, Africa