



# UK LOGISTICS OCCUPIER SURVEY

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Produced in partnership with the  
UK Warehousing Association

2018

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# Introduction

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The UK Logistics property market is under scrutiny as never before. With the continued growth of online retailing disrupting traditional retail and supply chain models, the sector is in a state of flux. As a result, occupier demand is regularly setting new records to the extent that speculative development is, in some parts of the country, struggling to keep pace with the levels of take-up. This is especially true for larger requirements where the only options for occupiers are to commission a development of their own.

Allied to this strong level of occupier demand, investors have also been actively examining the sector. Recent years have seen the industrial and logistics sectors perform exceptionally well, in terms of rental value growth feeding through to strong returns. In 2017, whilst other commercial real estate sectors had a modest year of performance, logistics excelled, posting double-digit returns during the year. This has resulted in the sector being of interest to a wide range of investors, including those that traditionally may have eschewed the sector.

So, with great interest in logistics, there is a growing need to understand more about how the sector functions. Compared to other real estate sectors, logistics is less well researched. Analysis of leasing data, whilst exceptionally helpful, can only go so far. To provide for a more superior insight, we need to better understand the motivations of occupiers, and how their attitudes to ongoing political and economic matters will influence their own business models.

## WORKING IN PARTNERSHIP

In order to explore occupier trends in more detail, CBRE have teamed up with the UK Warehousing Association (UKWA). The UKWA is Britain's leading trade organisation for the logistics sector, with over 650 members. They include warehousing and logistics providers as well as manufacturers, retailers, wholesalers and suppliers to the logistics industry.

By joining forces, both CBRE and UKWA were able to utilise the collective power of their combined contacts, by forming a survey sample that combined CBRE's occupier clients with UKWA's membership list.

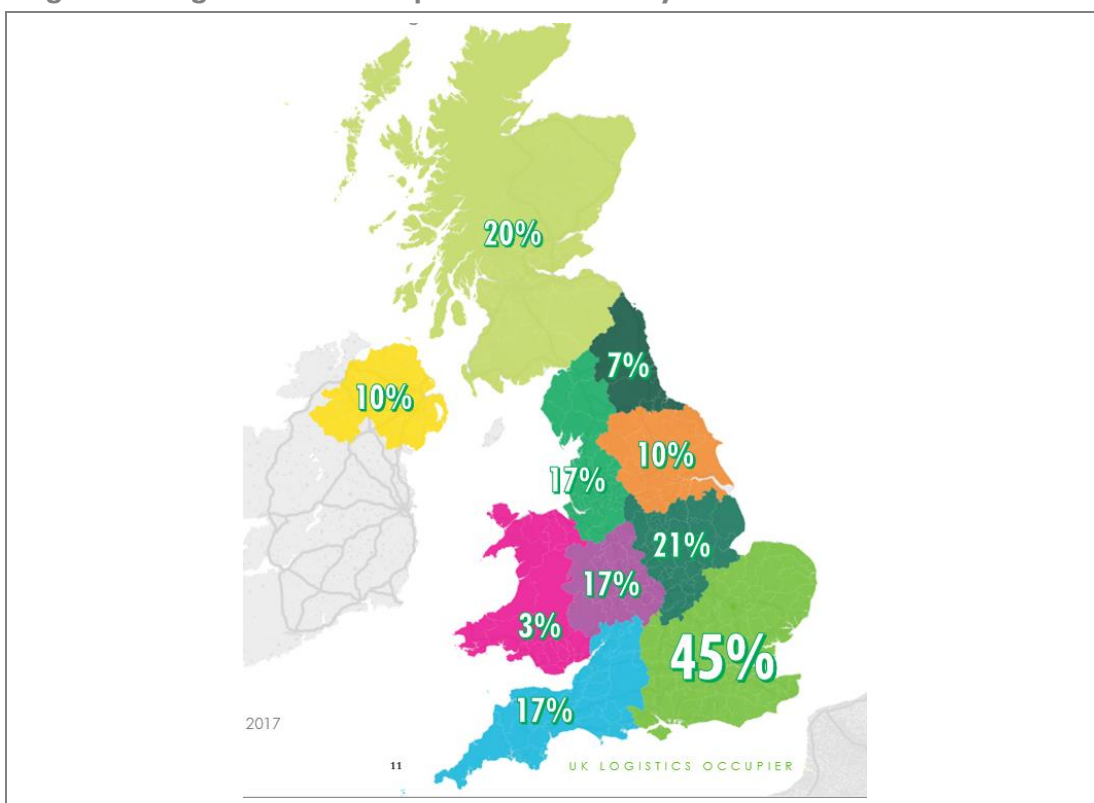
Survey work was undertaken between December 2017 and February 2018.

## The Participants

By creating a merged sample of CBRE clients and UKWA members, it was possible to survey from a large pool of warehouse occupiers, representing a wide range of different business sizes and locations.

As Figure 1 demonstrates, all parts of the UK were presented in the survey. The map shows the regions where respondents have warehouse premises. The percentages add up to over 100% as respondents have a presence in more than one region. London and the South East is the best represented region, followed by a secondary tier comprising the South West, East and West Midlands, North West and Scotland.

**Figure 1: Regions where respondents currently have warehouse facilities**



Source: CBRE

## Current Challenges

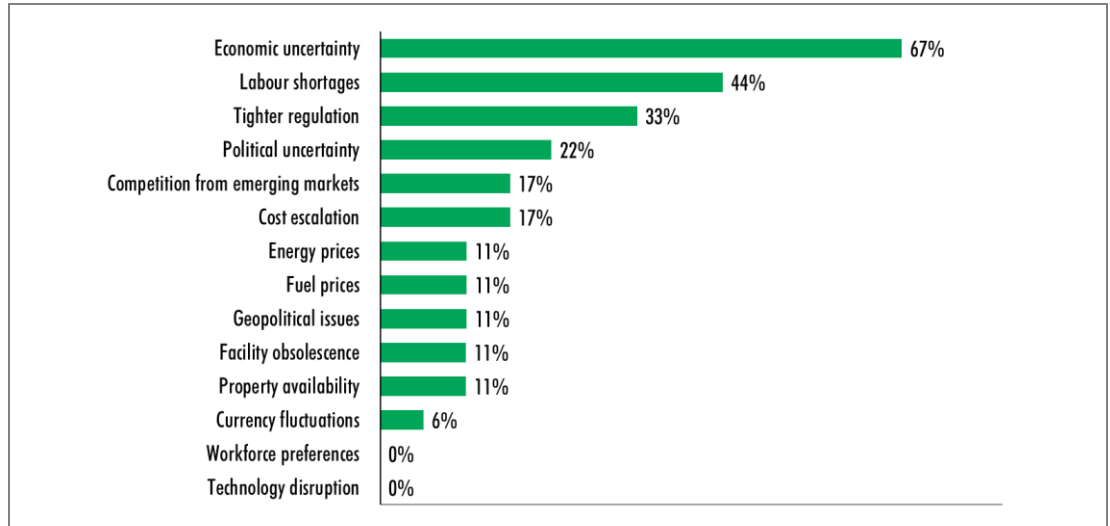
At the time of the survey the UK economy was performing well with over five years of continuous GDP growth. Regular business surveys (such as the influential Purchasing Manager’s Indices) are also rating very highly with UK and regional score of well over 50.

So, it came as some surprise to find that economic uncertainty was by far the greatest issue for respondents, with over two-thirds (67%) stating it was a key challenge for their business. Indeed, the major concerns for logistics business are very much as case of going ‘back to basics’, with labour market issues and regulation coming in in second and third places.

Some of the issues that may have a direct hit the profit margins of logistics business only received a limited response. These included energy and fuel costs, as well as general cost escalation and currency fluctuations. This was surprising given the survey was undertaken immediately after a period of rising UK inflation.

Even more interestingly, the options relating to workforce preferences and technological disruption were not selected by any of our respondents.

### Back to Basics: Key Challenge for Logistics Occupiers



Source: CBRE

## Views on Brexit

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The survey was undertaken at around the time that the first round of negotiations between the UK and EU reached a conclusion. Given then potential trade implications of Brexit, it was impossible not to cover the issues within the survey. Some 22% of the sample had already cited political uncertainty as a key challenge to their business, but with so many also citing economic concerns (67%) these views were likely to be influenced by Brexit.

A clear message from the respondents was that the departure of the UK from the European Union will be a challenge for their business, albeit for many a small but tangible challenge. Overall 50% viewed Brexit as providing challenges to their company's logistics operations, compared to just 11% who regarded it as an opportunity.

A further 17% said that Brexit would have no impact on their operations, whilst 22% regarded it as still too early to say. At the time the survey was undertaken, there was still no indication as to how trade arrangements would operate post Brexit, so it was a little surprising that the views were so clear.

The complexity of Brexit became clear when respondents were asked to identify the main challenges associated with leaving the EU. All options provided in the survey instrument received a high score (between 40% to 60% in all cases). This broad range of responses reflects the many different way Brexit could impact on occupiers, depending upon the degree to which individual business engage in trade with the rest of the EU, or indeed utilise the free movement of labour across Europe. 60% of respondents cited the challenges associated with future trade arrangements and tariffs charged to goods crossing borders. Meanwhile 40% each cited problems with longer customs checks, exchange rate fluctuations and difficulties accessing labour. The latter point has the potential to impact the sector relatively early into the Brexit process. A study by the British Retail Consortium in late 2017 estimated that 170,000 EU nationals were currently working in the UK retail sector – most of them in warehousing and logistics roles<sup>1</sup>.

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<sup>1</sup> BRC (2017) *A Fair Brexit for Consumers: The People Roadmap*, British Retail Consortium (<https://brc.org.uk/media/195628/people-roadmap-report.pdf>)

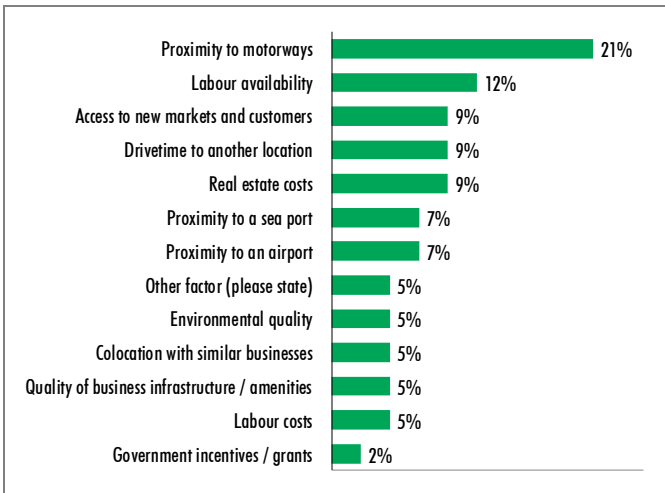
# Location and Building Choice

We have seen earlier the geographic distribution of respondents’ warehouses. However, as part of the survey we wanted to know more about the factors determining location and building choice. However, before we even consider these issues, are occupiers planning to acquire new space in the next two years?

The positive story from our sample is that very few planned to reduce the space they occupy – just 10% of respondents. Around half (47%) planned to maintain the amount of space at its current level within the portfolio, whilst 20% planned to expand. On the assumption that a new warehouse was required, the questionnaire went on to explore the factors at play. Firstly, with regards location.

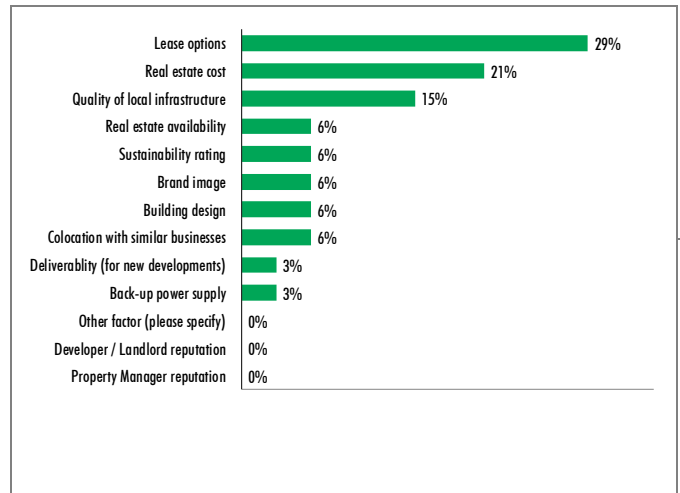
When it came to location, respondents selected a broad range of options. However, for the vast majority it is proximity to the motorway network that is the key driver for a new warehouse location (21% of respondents), followed by labour availability. Real estate costs were only mentioned by 9% of respondents. Minor factors with a 5% response including environmental quality, colocation with similar business and labour costs.

## Most important factors for warehouse location



Source: CBRE / UKWA

## Most important factors for building selection



Source: CBRE / UKWA

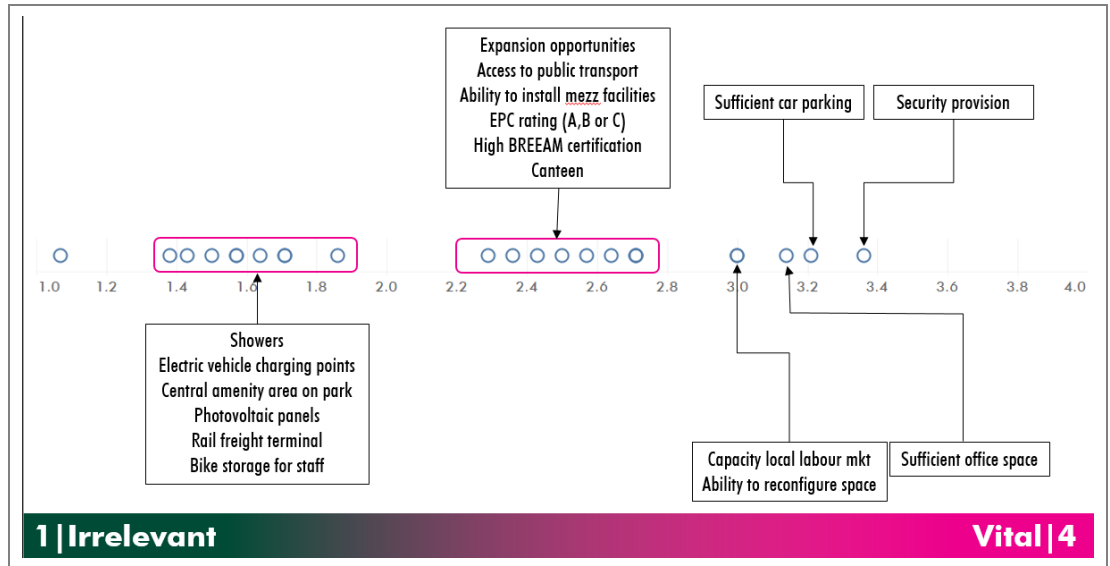
For building selection, the cost and details of the lease agreement seem the most critical factors, followed by the quality of local infrastructure. Other factors appear minor considerations. Building design, brand image and sustainability were only mentioned by 6% of respondents each. Meanwhile, back-up power supply was also placed low. These rankings were a surprise, as they are increasingly featuring in the requirements of those seeking new buildings. However, given the survey sample is predominantly in-situ occupiers, some of these points may not yet be at the forefront of their current thinking.

# Specific building / business park features

Respondents were presented with a large list of features that maybe associated with a new warehouse or the park in which it is located and asked to rank each on scale of 1 to 4, with 1 being irrelevant to their operations and 4 being vital. The broad spectrum of results is shown in the chart below.

## Relevance to occupier of building and park features

Scale 1 to 4: Irrelevant to Vital



Source: CBRE / UKWA

The top four features are all connected to the efficient running of the unit. Security provision tops this list, with the highest proportion of respondents (57%) citing this as a vital feature. This was followed by sufficient car parking space, sufficient office space, the flexible of the internal space for reconfiguration and the capacity of the local labour market.

A group of factors sit in the middle ground, which include matters relating to the sustainability of buildings. Be it measured via the ratings on Energy Performance Certificates or via BREEAM ratings, respondents placed these, on average, in the middle of the preference range.

Finally, there is a group of factors that are of minor importance. These include more specialist features that will always be of restricted demand (for example access to a rail freight terminal). However, new technologies are also being given low ranks including electric vehicle charging points and photovoltaic panels. Also ranked low are items that would be regarded as providing wellbeing to employees such as bicycle storage and showers. The lowest ranking item, by far, was a creche.

# A New Lease?

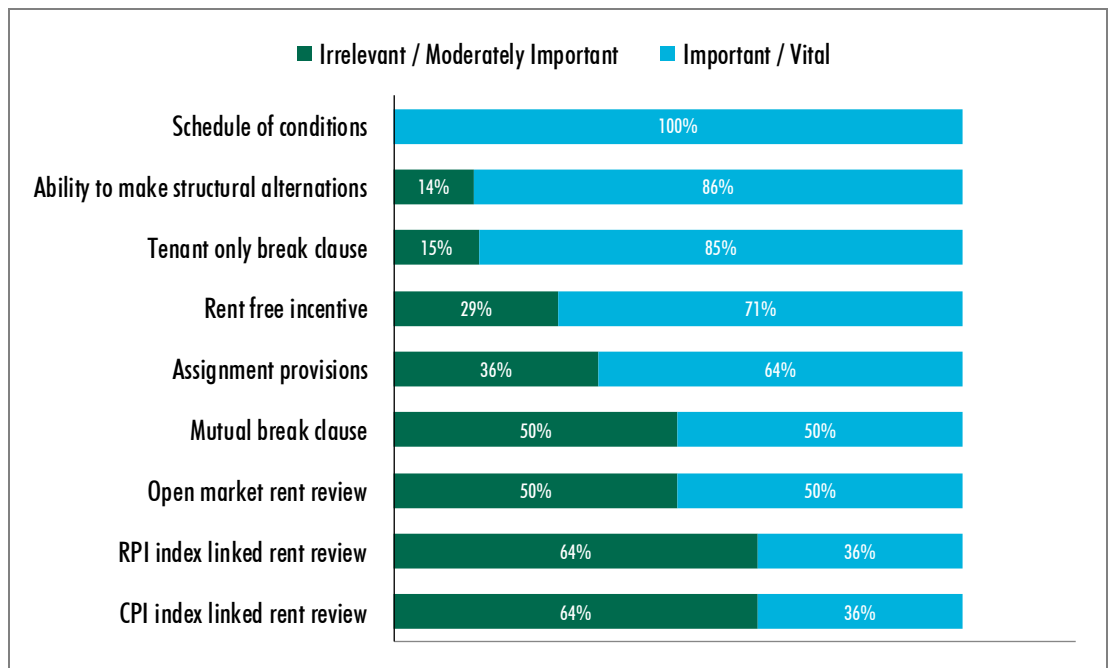
Throughout commercial real estate, average lease lengths have been in decline for many years. The overwhelming evidence from this survey is that logistics occupiers are also moving in this direction. Despite long lease lengths being agreed, particularly associated with Build-to-Suit lettings, almost 80% of respondents would prefer a lease of ten years or less. Only 7% expressed a preference for long leases, of over 20 years.

Many of the traditional features of lease were seen as vital or preferred by the vast majority. All respondents said that a schedule of conditions was important or vital. Other important features included the ability to make structural alternations, tenant only break clauses, rent free incentives and the provision to assign the lease.

It was a 50/50 split amongst respondents for mutual break clause, much different from the 85% in favour of a tenant-only break.

Rent reviews were generally seen as unimportant, with index linked rent reviews less preferred than open market reviews. However, amongst those responding we were unable to identify any difference in preference for RPI and CPI linked reviews. It may have been the case that there was a greater preference for CPI above RPI, simply due to the fact that CPI inflation rates predominately track lower than RPI.

## Preferred lease terms



Source: CBRE / UKWA



# Warehousing of the Future

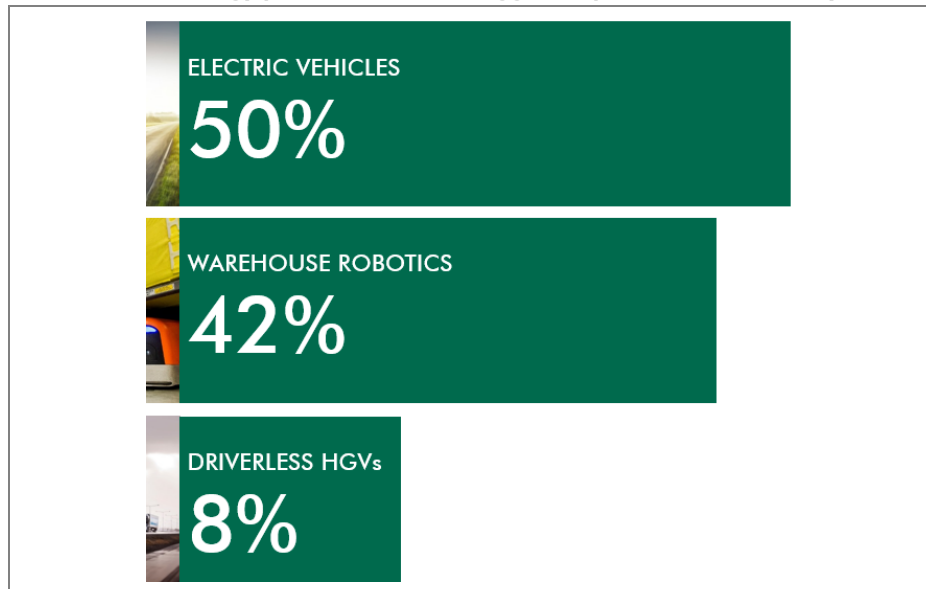
A significant debate has emerged in recent years about the warehouse of the future. As the impact of technology has become felt more and more, both inside and outside the warehouse, it seemed opportune to conclude the survey by collating responses in relation to views on the emerging technologies and building changes taking place in the sector.

In London, where there is intense pressure on competing land uses, there has been growing discussion in the industry about the potential for developers to build multi-story warehouses. Amongst the survey sample, 43% considered multi-story as a viable building design for the UK. However only 29% saw it as a viable building design for their business. This may well reflect the UK wide spread of respondents, where multi-story is unlikely to be a consideration. There were insufficient responses to isolate the view of those based within or close to London. Nevertheless, this does also suggest that these types of building may not be suitable for every occupier in the sector.

In terms of other technologies, again there was a mixed view as to the impact these will have on supply chains in the future. Given a choice of six different technologies, half of all respondents said that electric vehicles would have the greatest impact on the sector. The survey was undertaken around the time that Tesla unveiled their plans for an electric HGV, so this may have swayed views a little. Robotics within the warehouse were an additional technology that was seen to have a big impact, for 42% of the respondents. The remaining 8% opted for driverless HGVs. It is worth mentioning that respondents were also presented with options for drones, artificial intelligence and 3D printing, none of which were chosen by any of those surveyed.

## Views on technology

Forms of technology perceived to have biggest impact over next three years.



Source: CBRE/UKWA

## Further Information

### The Wellness Agenda

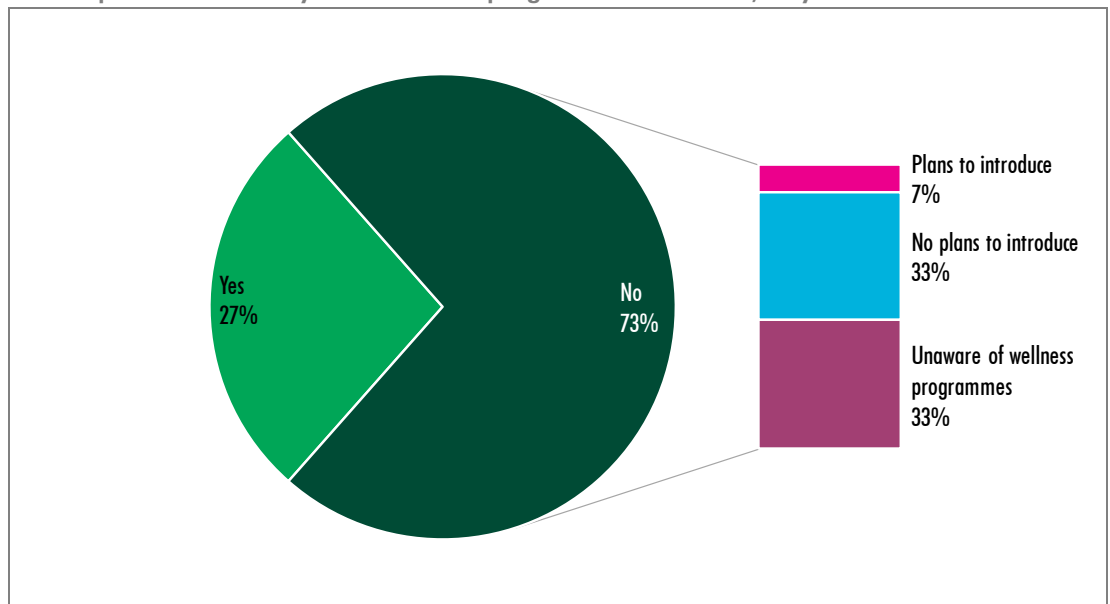
The final area for the future was the wellness agenda. Within the office market there has been growing interest from both landlords and occupiers around the wellness agenda. Wellness accreditation began in the US, and is now making its mark here in the UK. The Porter Building in Slough town centre has received a Gold certification from the International WELL Building Institute, the first such building to gain this accolade in the UK. It is also starting to be used within the warehousing and logistics sector, with Gazeley ensuring compliance to WELL Certification for Core and Shell at their new speculative development, Altitude, in Milton Keynes.

However, based on the respondents to this survey, wellness programmes do not, yet, appear to have made much advancement within logistics businesses. Only 27% said they currently had a wellness programme, with almost three-quarters (73%) stating that they currently did not have a formal wellness programme.

Within this latter group, only 7% of all respondents had plans to introduce a programme; whilst one third each had either no plans or were unaware of wellness programmes.

### Views on wellness programmes

Do respondents currently have wellness programmes and if not, why not?



Source: CBRE / UKWA

## Closing Comments

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This joint survey between CBRE and the UK Warehousing Association has captured warehouse operators views at a specific point in time. In many ways, the results of the survey highlight the traditional concerns impact businesses across the UK.

Economic uncertainty and issues associated with labour availability are the primary concerns for logistics operators.

The costs associated with real estate are a concern for only a minority. This reflects, that for many logistics companies, real estate costs are a relatively small element to the overall mix of costs that businesses face, labour being the most prominent.

The survey was undertaken with just over 12 months to go before the UK formally leaves the European Union. Most of the respondents to this survey saw Brexit as a challenge, rather than an opportunity – however the impacts of Brexit varied significantly across the sample. The impacts are likely to be felt very differently depending on the exposure a given business has to cross-border traffic, use of foreign born labour or the position of their clients with the overall supply chain.

For the majority of respondents, they expected to maintain the current size of their portfolio. However, should they require new warehouse space, flexible lease options and security provisions are the most sought-after terms favoured in a new lease.

Finally, we noted some scepticism amongst respondents towards new technologies, and newer workplace indicatives, such as wellness programmes, are used by only a limited number of respondents.

However, these findings represent just a snapshot of a small group of logistics operators at a single point in time. To fully see how views are evolving and developing, particularly as political and economic factors move forwards, a second round of interviews would be very beneficial and informative.

## Further Information

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