Tritax Symmetry (Hinckley) Limited

HINCKLEY NATIONAL RAIL FREIGHT INTERCHANGE

The Hinckley National Rail Freight Interchange Development Consent Order

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Logistics Demand & Supply Assessment

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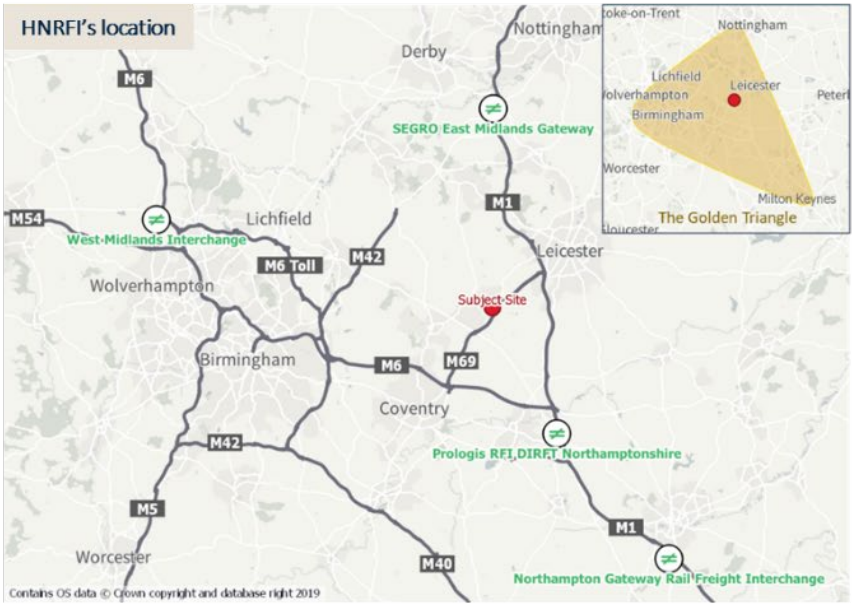
Executive Summary

Report Purpose and Proposed Development

This report **assesses market demand for logistics (I&L) uses in relation to the proposed Hinckley National Rail Freight Interchange (HNRFI).**

The Main HNRFI site comprises 187 ha of largely agricultural and farmland by Junction 2 of the M69, around 2 miles from the town of Hinckley. It is located within the local authority of Blaby, at the heart of the 'Golden Triangle', which extends from Northamptonshire up the M1 to East Midlands Airport, and westward as far as Birmingham.

HNRFI's location



HNRFI's Illustrative Masterplan

The proposed HNRFI is a multi-purpose rail freight interchange and distribution centre linked into both the rail and trunk road system. HNRFI will provide a direct rail connection to the eastern port of Felixstowe and high-quality strategic road connections to the East Midlands and West Midlands. The HNRFI comprises a:

- **a new railport** (circa 40 acres) capable of accommodating up to 16 trains up to 775 meters in length per day;
- **up to 850,000 square meters (sqm) gross internal area (GIA) of warehousing and ancillary buildings** with a total footprint of up to 650,000 sqm and up to 200,000 sqm of mezzanine floorspace, including the potential for some buildings to be directly rail connected if required by occupiers;
- a lorry park;
- a site hub building for security and meeting space;
- a pedestrian, equestrian and cycle access routes;
- southern slip roads at M69 Junction 2;
- A new A47 Link Road from the modified M69 Junction 2 to the B4668/A47 Leicester Road; and
- strategic landscaping, including creation of public open space linking to Burbage Common.

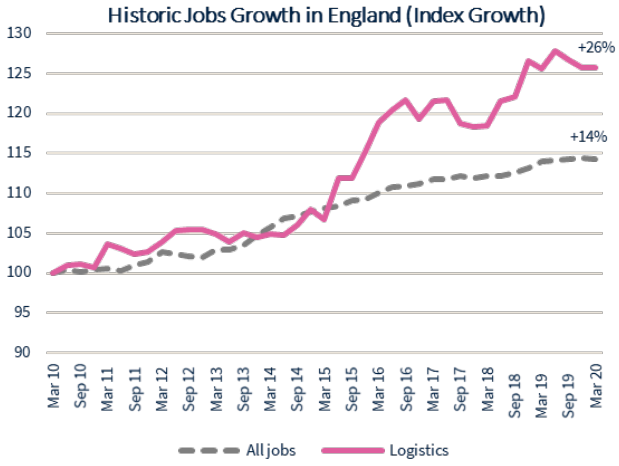
Industrial & Logistics Facilities are Critical National Infrastructure

The Industrial & Logistics (I&L) sector is a **major contributor to the national economy**

3.8 million jobs in England

£232 billion of **Gross Value Added (GVA)** per annum (p.a.)

29% productivity increase between 2025 and 2039

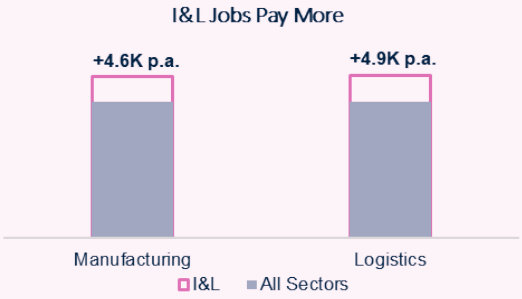


Over the last 10 years the logistics component of the I&L sector has grown by 26% compared to only 14% across the wider economy.

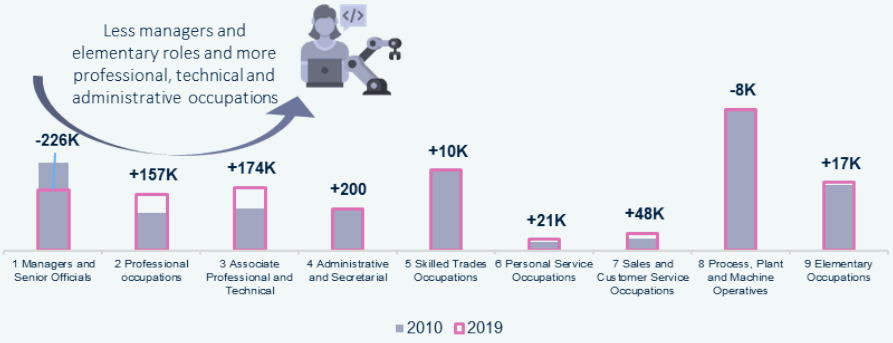
In terms of business generation, the logistics sector is the fastest growing segment of the economy, both in recent years and over the long term. Since 2011, the number of logistics businesses has increased by 88%, much higher than the 26% growth rate across the whole economy.

Data from the Office for National Statistics (ONS) show the I&L sector pays higher wages - at £30,400 (+£4,600 vs all sectors) for Manufacturing and £30,700 (+£4,900 vs all sectors) for Logistics. Logistics wages also grew faster between 2019 and 2020 at +6% growth vs +4% for all other sectors. Wage growth is extremely important in the current inflationary environment.

In addition, entry-level logistics jobs are relatively well-paid, with median annual pay being 47% higher than jobs in other sectors in the same occupational category.

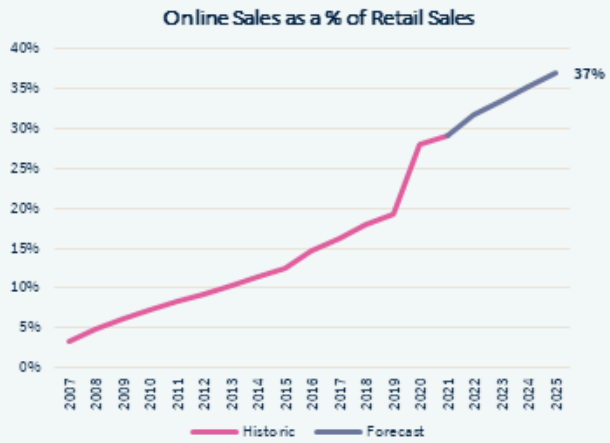


The I&L sector provides an increasingly diverse range of occupations. This increased occupational diversity means the sector can play an important role in **re-employing people that have lost jobs** in other sectors of the economy as a result of the **Covid-19 pandemic.**



Across the East Midlands and the West Midlands, the number of people claiming **benefits** – mostly for **unemployment,** is around 285,950, still 27% above the level in March 2020.

Numerous Growth Drivers are Supporting Record Breaking Demand

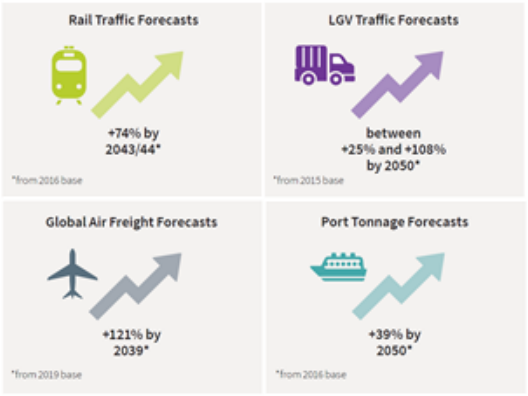


The increase in online shopping is certainly one of the key growth drivers for I&L demand. The pandemic has clearly accelerated this growth which went from 19% of all retail sales before the onset of Covid-19 to 26% as of May 2022.

The growth in online shopping has significant implications on future I&L demand given that e-commerce requires around 3 times the logistics space of traditional bricks-and-mortar retailers. Most commentators agree that online retailing will continue to grow from a higher base than before the pandemic due to behavioral changes such as increased home working and continued demand for rapid parcel deliveries. Forrester Research, a respected source of future online retail projections, estimate that online retail will grow to 37% of all retail sales by 2025.

The increase in freight flows is another key driver of I&L floorspace demand. Significant growth is forecast across all freight modes. Freight arriving and leaving the UK needs to be sorted, packaged and distributed via a network of freight handling infrastructure (i.e. ports, airports, rail freight interchanges and motorways) and conveniently located I&L premises in order to reach end customers.

Government is pushing for a modal shift towards rail, aimed at reducing carbon emissions and road congestion. HNRFI will play a critical role in this move, providing a low carbon alternative to large freight movements from the ports.

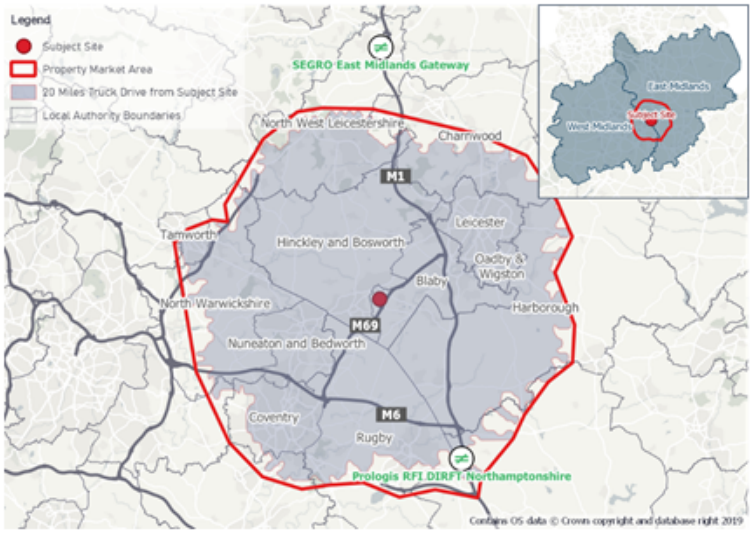


However, they are many other growth drivers for I&L in addition to online growth and freight flows. We consider the shift in habits we have been witnessing – such as the move to online shopping - to be structural rather than temporary.

PMA's Industrial & Logistics market at a glance (100k+ sqft)

86 million sqft of I&L floorspace	Very low availability at 2.8%	High rental growth (2011-21) at 66%

10 year leasing demand (net absorption) at 2.2 million sqft p.a. exceeds the amount of new floorspace delivered at 2 million sqft p.a. This explains the low availability and high rental growth.



Our market assessment has been undertaken for the Subject Site's Property Market Area (PMA). The PMA captures key operational and supply chain linkages in addition to competitor locations from a market perspective.

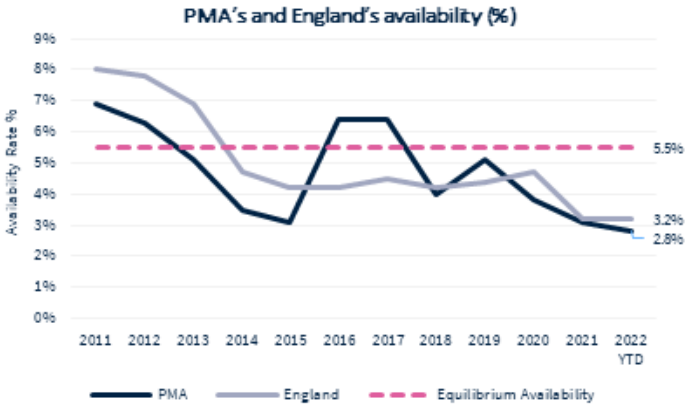
The PMA is at the heart of the golden triangle. It spans across the East Midlands and West Midlands and over the last decade, it has attracted nearly a third (30%) of large unit demand across these two regions.

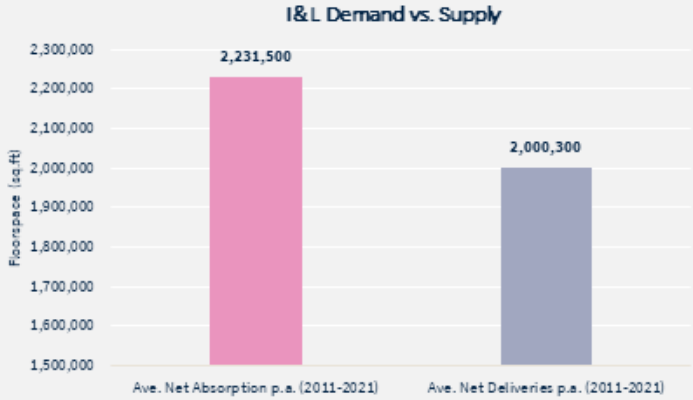
Large units above 100,000+ sqft total 86 million sqft and account for nearly 60% of all I&L floorspace in the PMA – the other 40% (59 million sqft) are smaller units of less than 100,000 sqft.

We consider a market to be **supply constrained** when floorspace availability is below the relevant market equilibrium level. We have estimated this to be 5.5% availability for the large unit segment (100,000 sqft plus) of the PMA's market.

The availability rate across the PMA is **extremely low** at just **2.8%** - lower than the availability across England which is at 3.2%.

The PMA's availability rate has been below the 5.5% equilibrium for over 7 years between 2011 and 2022 year-to-date (YTD), indicating that the I&L market has been supply-constrained for most of the last decade.





The lack of new floorspace (supply) has reduced availability and restricted demand (net absorption).

New I&L floorspace across the PMA over the last decade (2 million sqft per annum) has lagged demand, as measured by net absorption (2.2 million sqft) between 2011 and 2021.

Savills considers net-absorption to be the leading measure of demand for floorspace as it indicates the quantum of net floorspace occupied over a period of time (i.e. move-ins minus move-outs) based on leasing deals.

Previous employment studies have significantly underestimated Industrial & Logistics demand for the PMA

The PMA for HNRFI covers 12 local authority areas, each with their own evidence base plus one regional study covering Leicester and Leicestershire. These reports are considered somewhat disconnected in how they relate to one another as they deploy different estimation methods and focus on different segments of the market. As a result, they do not provide a robust and complete picture of I&L demand.

Regional Evidence Base (demand for strategic B8 floorspace in Leicester & Leicestershire)

- Preferred method estimates demand even lower than historic trends, at odds with current record levels of demand
- Uses different plot ratios for different demand models
- Air freight and LGV traffic are not considered

Local Evidence Bases (covering 12 local authorities)

- Different time periods and I&L market segments covered
- The different methodologies used do not focus on market signals as per paragraph 31 of the NPPF, resulting in an underestimation of future I&L demand
- Very long lookback periods and different adjustments made to estimates
- Different plot ratios used, which are too high and do not reflect modern I&L requirements

PMA's 20-year Supply/Demand Balance (B8 100,000+ sqft)

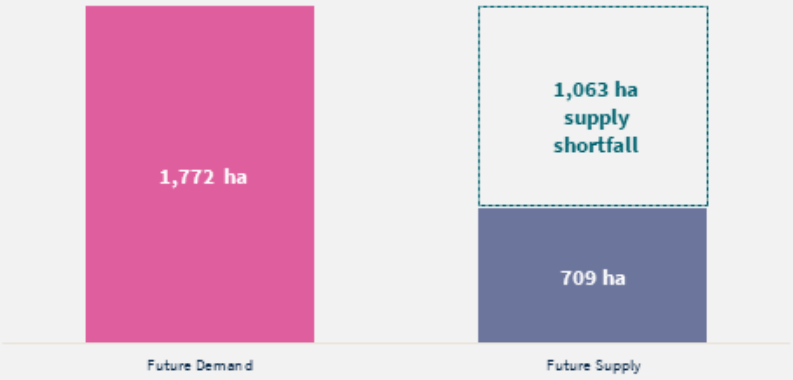
We have calculated the 20-year market supply/demand balance across the PMA market for large B8 units (100,000+ sqft), comparing our future estimate of demand with available supply.

Based on the Savills demand methodology, we estimate **future demand** within the PMA to be **1,772 ha**. Savills' methodology is NPPG–compliant as it builds upon past trends, adjusting for historic supply shortages and the subsequent loss in demand. We refer to this as 'suppressed demand' which is added to the historic demand trend as a top-up. We also factor in future e-commerce growth.

We estimated **future supply** for large scale B8 units across the PMA to be **709 ha**. This was estimated by aggregating current availability across existing buildings, sites which benefit form planning permissions and sites that benefit from either an allocation or draft allocation.

The comparison of our estimated future demand against future supply indicates that demand is 150% (2.5 times) higher than available supply. **The 226 ha HNRFI will help to address this 1,063 ha shortfall in supply.**

PMA's 20-year supply/demand balance (B8 100,000+ sqft)



Demand over a 20-year plan period

Chapter 1 ◆ Introduction

1.1 PURPOSE & SUMMARY

1.1.1 Savills have been instructed by Tritax Symmetry (Hinckley) Limited (TSH) to assess market demand for logistics uses in relation to the proposed Hinckley National Rail Freight Interchange (HNRFI). HNRFI is a proposed multi-purpose Strategic Rail Freight Interchange (SRFI) and distribution centre linked into both the rail and trunk road system. HNRFI will provide a direct rail connection to the eastern port of Felixstowe where freight is imported and exported, and high quality strategic and road connections to the East Midlands and West Midlands that the interchange will serve.

1.1.2 The logistics industry provides the warehousing and distribution network that supports our entire economy. Currently it is predominantly road-based – with 77% of domestic freight being transported by road vs only 9% by rail[1]. However, logistics operators are increasingly looking to integrate rail freight into their operations in response to the Government's decarbonisation agenda, which actively promotes a modal shift towards rail that is considered a lower carbon solution to road haulage.

1.1.3 This report considers both the national trends underpinning unprecedented demand in the industrial and logistics (I&L) sector as well as demand and supply dynamics specific to the Property Market Area (PMA) within which HNRFI is located. We consider both the I&L sector as a whole and B8 logistics uses specifically given it is these uses that make up HNRFI's property offer. Our analysis shows that based on strong, unmet demand in the sub-region, consistent with national trends, there is a robust market need case for the development of HNRFI.

1.1.4 In reaching this conclusion we first consider national trends in the logistics sector. This analysis demonstrates the sector is on a high growth trajectory, well above historic levels being driven by various factors such as housing growth, increased online shopping, higher freight flows and Brexit and Covid induced shocks such as re-shoring[2] and increased stockpiling to guard against supply chain breakages. We also evidence the sector's importance to our economy, not just in terms of jobs and GVA contributions but also because of the critical function it plays in serving other sectors of the economy and the country's growing population.

1.1.5 Against this context of exceptional growth in the sector, it is our experience local authorities routinely underestimate demand for I&L uses. This is proven by the extremely low levels of availability and strong rental growth in the PMA and nationally, denoting a market where supply is not keeping up with demand. As part of our work, we review the employment evidence base of the 12 planning authorities in the relevant PMA for the HNRFI, finding large inconsistencies in their approaches to estimating demand. The various demand methodologies applied also fail to account for current day market drivers which have led to them underestimating 'true' market demand for I&L uses.

[1] DfT (2021), Table TSGB0401
[2] Moving a business that had gone overseas back to the country from which it had originally relocated

1.1.6 After building up our own picture of current and historic market demand and supply for I&L uses within in the PMA, we detail Savills' methodology for estimating future demand. Our approach is considered to address the methodological weaknesses of the various local authorities' employment evidence by quantifying the impact historic supply constraints have had on 'suppressing' demand. We also take account of current day growth drivers such as e-commerce. The Savills approach is to first consider overall I&L demand across the PMA for the 100,000+ sq.ft. segment and then apportion to B8 uses after consideration of various demand and supply factors. This is because using a larger pool of data is generally considered more robust in modelling terms, and because industrial and logistics occupiers desire similar locations and types of premises.

1.1.7 Based on Savills' demand methodology, over a 20-year plan period, we estimate the demand for 100,000+ sq.ft. properties across the PMA is 2,061 ha for all I&L uses and 1,772 ha for B8 uses (86% of total demand) within units above 100,000 sq.ft. This level of demand is 150% higher than current supply of 709 ha.

1.2 SITE CONTEXT

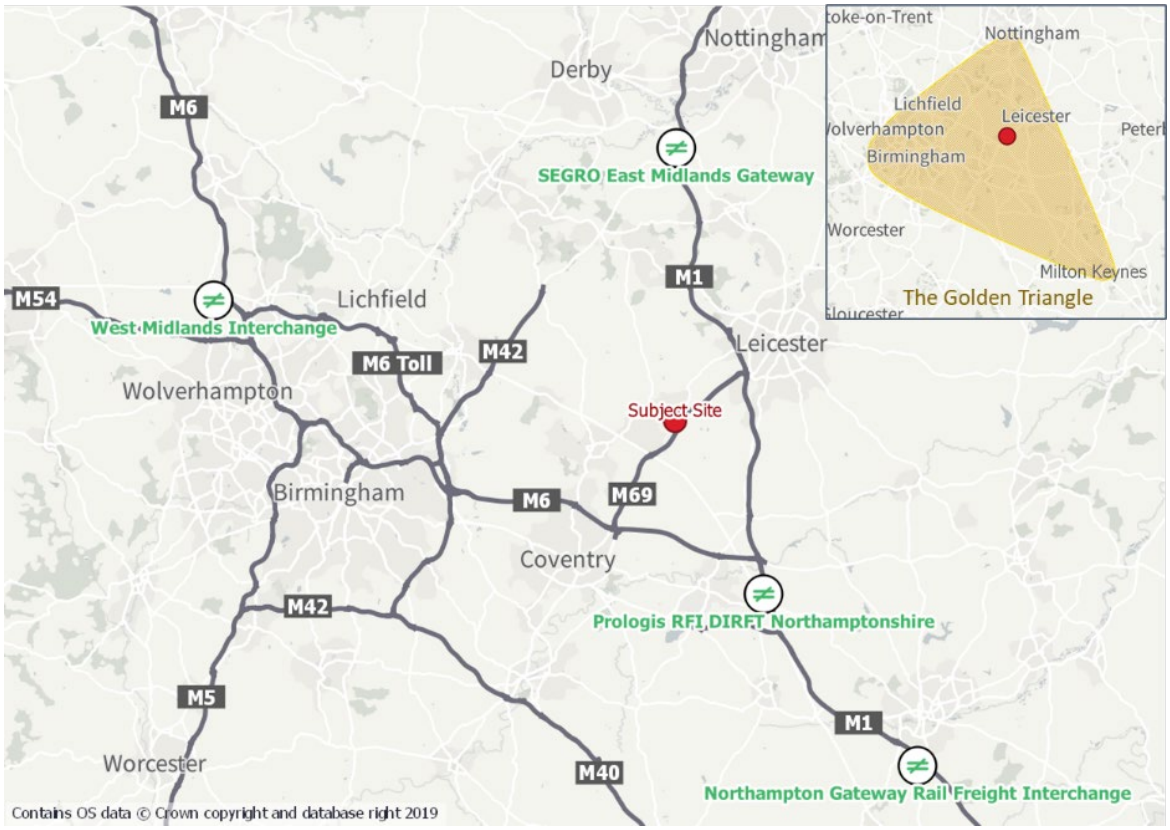
1.2.1 The land within the DCO covers an area of approximately 268 hectares (ha), the Main HNRFI Site covers an area of approximately 187 ha comprised of largely agricultural and farm land by Junction 2 of the M69, around 2 miles from the town of Hinckley.

1.2.2 The DCO Order Limits that contain the Main HNRFI Site also include the contiguous areas to the north-west, south and east, respectively to contain the corridor of a proposed link road that would cross the Leicester to Hinckley railway and connect to the B4668/A47 Leicester Road (the 'A47 Link Road'), the proposed works to Junction 2 of the M69 and a section of the B4669 Hinckley Road towards the village of Sapcote. These are called the Main Order limits. All of the land inside the Main Order Limits is in Blaby District in Leicestershire except for the north-western end of the A47 Link Road corridor, which is in the Borough of Hinckley and Bosworth in the same county. Supporting highway works are proposed in Blaby, Hinckley and Bosworth and Harborough Districts in Leicestershire and in the Borough of Rugby in Warwickshire.

1.2.3 The Main HNRFI site is located within the local authority of Blaby, part of Leicestershire County, at the heart of the 'Golden Triangle', which extends from Northamptonshire up the M1 to East Midlands Airport, and westward as far as Birmingham. The West Midlands conurbations of Coventry, Leicester, Nottingham, Derby and Northampton all lie within 50 km of the proposed HNRFI.

1.2.4 **Figure 1.1** shows the Subject Site in relation to the motorways network and other rail freight interchanges in the region, namely the East Midlands Gateway (EMG) to the north, Daventry International Rail Freight Terminal (DIRFT) and Northampton Gateway Rail Freight Interchange to the south, and the West Midlands Interchange (WMI) to the west.

Figure 1.1 Site Locational Context



Source: Savills

1.2.5 As discussed, the proposed HNRFI is a strategic rail freight interchange (SRFI). An SRFI is a large multi-purpose freight interchange and distribution centre linked into both the rail and trunk road systems. The aim of a SRFI is to optimise the use of rail in the freight journey by maximising rail and minimising some elements of the secondary distribution leg by road, through co-location of warehousing and freight activities.

1.2.6 Government policy for the development of SRFIs is set out in the 2014 National Policy Statement for National Networks (NPSNN). The NPSNN - which is currently under review - presents the case for the need for SRFI developments, and outlines their alignment with wider Government's objectives such as achieving carbon reduction targets and reducing road congestion. The recent Future of Freight Plan[3] provides further confirmation of Government's ambition to support rail freight growth, recognising SRFIs as a key component of the national freight network and critical to the modal shift.

1.2.7 As shown in **Figure 1.2**, HNRFI is centrally located between the West Coast Mainline and the East Coast Mainline on Network Rail's Strategic Freight Line connecting Felixstowe to the Midlands and the North.

[3] DfT (2022), *Future of Freight: a long-term plan*

Figure 1.2 HNRFI and Key Freight Routes

Source: Tritax Symmetry

1.3 PROPOSED DEVELOPMENT

1.3.1 The Proposed Development will comprise:

- a new railport (circa 40 acres) capable of accommodating up to 16 trains up to 775m in length per day;
- up to 850,000 square metres (sqm) gross internal area (GIA) of warehousing and ancillary buildings with a total footprint of up to 650,000 sqm up to 200,000 sqm of mezzanine floorspace, including the potential for some buildings to be directly rail connected if required by occupiers;
- a lorry park;
- a site hub building for security and meeting space;
- a pedestrian, equestrian and cycle access routes;
- southern slip roads at M69 Junction 2;

- a new A47 Link Road from the modified M69 Junction 2 to the B4668/A47 Leicester Road; and
- strategic landscaping, including creation of public open space linking to Burbage Common.

1.3.2 HNRFI's illustrative masterplan is shown in **Figure 1.3**.

Figure 1.3 HNRFI's Illustrative Masterplan

Source: Tritax Symmetry

1.3.3 **Table 1.1** provides an example of how the site could come forward in terms of the number and size of units. However, ultimately it is the parameters plan which will control delivery. The units proposed are large scale, all above 100,000+ sq.ft, with 3 units above 1 million sq.ft. This type of unit will cater for large scale companies with national and international supply chains, which is the expected user base of a rail terminal of strategic scale such as HNRFI.

Table 1.1 Proposed Schedule of Accommodation (Gross Internal Area)

	Sqm	Sq.ft.
Unit 01	64,200	691,300
Unit 02	26,500	285,500
Unit 03	26,700	287,000
Unit 04	46,900	505,000
Unit 05	34,400	370,000
Unit 06	135,600	1,460,000
Unit 07	97,600	1,050,500
Unit 08	78,900	849,500
Unit 09	132,200	1,423,000

Source: Tritax Symmetry, Savills

1.4 REPORT STRUCTURE

1.4.1 The report is structured as follows:

- **Chapter 2** establishes the relevant Property Market Area (PMA) for HNRFI, defined taking account of both: A) the competitor locations for large warehouse occupiers, and B) the travel distance I&L businesses not located within the HNRFI site will reasonably travel to use the proposed RFI as part of their wider supply chain;

- **Chapter 3** provides an overview of the I&L market nationally and in the East Midlands and West Midlands including key trends and how critical the sector is to the national and regional economy;

- **Chapter 4** reviews the Local Plan employment evidence for the 12 local authorities located within the relevant PMA for HNRFI, inclusive of their various approaches to estimating future demand;

- **Chapter 5** assesses I&L demand and supply factors in the relevant PMA for the HNRFI in order to provide a sense of whether or not historic supply has kept pace with the strong demand;

- **Chapter 6** assesses the future supply of land to meet future B8 demand for large units above 100,000 sq.ft, covering under construction buildings, available land with planning permission and future pipeline;

- **Chapter 7** provides Savills' estimate of future demand for B8 units above 100,000 sq.ft. across the relevant PMA for HNRFI, which unlike the local authorities' evidence base considers market signals and objectively assessed needs in accordance with the NPPF and NPPG; and

- **Chapter 8** concludes and provides Savills' recommendations around the market need for the proposed HNRFI.

1.5 READER NOTE

1.5.1 When we refer to the industrial and logistics (I&L) sector we mean Light Industrial (formerly B1c use class now part of Class E), General Industry (B2 use class) and Storage and Distribution (B8 use class). Effectively the primary use classes that require shed-type units (including ancillary offices) and associated yard spaces. These use classes typically cover the diverse range of industrial, manufacturing and logistics companies that operate within England.

1.5.2 Within this report we refer to the wider I&L market for context. HNRFI will only provide B8 uses, which is a subset of the wider I&L market.

Chapter 2 ◆ Defining a Property Market Area

2.1 INTRODUCTION

2.1.1 Before we can consider the strength of the I&L market relevant to the Subject Site, we first need to determine an appropriate Property Market Area (PMA). This is the geography within which we will consider market supply and demand factors. We also consider the national context throughout the report so as to gauge how strongly the PMA's I&L market is performing in relative terms.

2.2 HNRFI PMA

2.2.1 The HNRFI PMA needs to be relevant to the Subject Site, namely it is the broad 'area of search' the site sits within that I&L investors and prospective occupiers of large units above 100,000 sq.ft. will consider when looking to lease space. Effectively the PMA includes the competitor locations to the HNRFI for attracting this occupier demand. The warehousing component of the Proposed Development will compete within the general market with both rail-served and non-rail schemes.

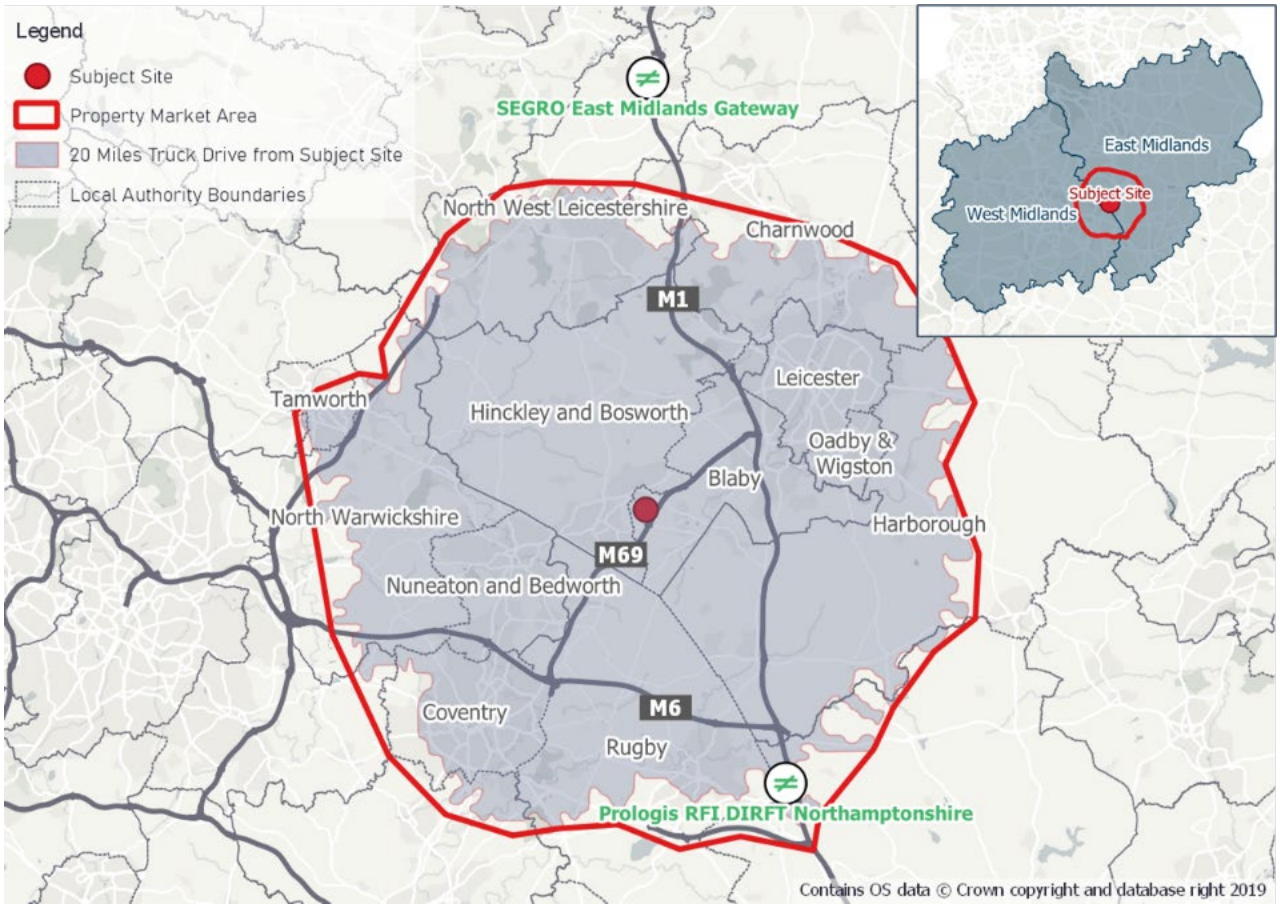
2.2.2 However given the Proposed Development relates to nationally significant infrastructure, being a SRFI, it is also essential our PMA captures key operational and supply chain linkages in addition to competitor locations from a market perspective. After discussions with rail freight operators, it is felt a 20-mile truck-drive isochrone from the proposed HNRFI is appropriate. This equates to roughly a 45-minute truck-drive time which most I&L companies would consider a reasonable distance from which to use the rail freight interchange to either collect or drop off materials and goods as part of their supply chain. This recognises that not only the rail-linked units provided within the Proposed Development will use the rail terminal.

2.2.3 The extent of the PMA is shown in **Figure 2.1** – marked by the red line boundary which is based on the 20-mile truck-drive isochrone. The PMA also includes a key stretch of the M1, the M6 and M69. It includes Prologis' Daventry International Rail Freight Terminal (DIRFT) within its southern edge. It doesn't reach East Midlands Gateway (EMG) to the north. While arguably EMG could be included within the PMA, it is beyond the 20-mile truck-drive from the HNRFI. EMG would likely be seen as a preferrable alternative for businesses located in the northern areas of North West Leicestershire, Charnwood and further north.

2.2.4 In terms of local authorities, the PMA covers fully the local authorities of Hinckley & Bosworth, Blaby, Leicester, Oadby & Wigston, and Nuneaton & Bedworth, and in great part – albeit not fully – the local authorities of North West Leicestershire, Charnwood, Harborough, Rugby, Coventry, North Warwickshire and Tamworth. In terms of regions, the PMA straddles the East Midlands and West Midlands.

2.2.5 Across the PMA, there is over 86 million sq.ft. of floorspace in I&L properties sized 100,000+ sq.ft. There is a further 59 million sq.ft. of I&L floorspace in units below 100,000 sq.ft. that also could utilise the proposed HNRFI as part of their supply chains.

Figure 2.1 Property Market Area



Source: Savills

Chapter 3 ◆ Key Trends in the Logistics Sector

3.1 INTRODUCTION

3.1.1 In this chapter we discuss some of the key trends that have been driving growth in the I&L sector as a whole and for logistics uses specifically which are the focus of HNRFI. We draw upon analysis from Savills' recent publication for the British Property Federation "*Levelling-up – The Logic of Logistics*"[4], Savills' *Big Shed Briefings* and other relevant research.

3.1.2 Not only has the sector been outperforming other commercial sectors in the UK for some time, but it is also 'critical national infrastructure' that supports the functioning of our economy and the way we live our lives. The food we eat, the products and services we purchase, the materials used to build new homes and new infrastructure, even the vaccines that give us protection from Covid-19 are stored, manufactured and distributed from warehouses and factories to 'us' the end customer. The logistics sector enables the movements of goods across a multi-modal network of road, rail, air, and water routes. Most businesses draw on supply chains - many of which are global in scale - that rely upon these multiple modes of transport and on the transfer between freight nodes (such as ports, airports, rail freight interchanges) to warehouses and then finally onto the end customer. Without these facilities and the increasingly efficient supply chains that link them with suppliers and end customers, the delivery of our purchases would be much slower, more expensive and we would have less choice.

3.1.3 Large intermodal rail freight interchanges, such as the one proposed at Hinckley, provide strategic connections between ports / airports and large conurbations, and are indeed key nodes in the wider freight network. They also contribute towards Government's wider decarbonisation agenda and reduce road congestion. The importance of SRFIs is also recognised by the planning system[5], National Policy in England considers rail freight interchanges above 60 ha as Nationally Significant Infrastructure Projects (NSIP). The recent Future of Freight Plan[6] further confirms Government's ambition to support modal shift and rail freight growth – meaning that logistics development connected to rail freight interchanges does not just respond to the wider logistics growth – discussed further below - but also to national policy objectives.

3.2 NATIONAL AND REGIONAL PROPERTY CONTEXT

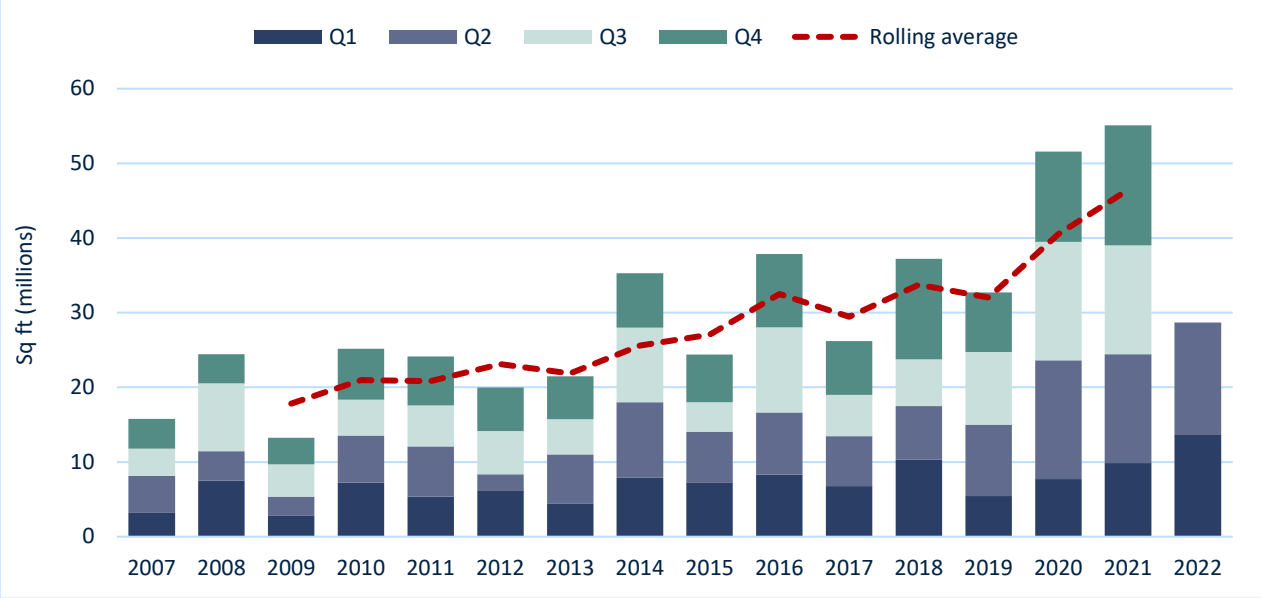
3.2.1 Logistics uses form part of the wider I&L sector which includes manufacturing properties too. Both logistics and manufacturing businesses require similar, shed-type properties (including ancillary offices) in highly accessible locations nearby to motorway junctions and other freight handing infrastructure as well major population centres.

3.2.2 Over the course of 2021, Savills Big Shed Briefing (which assesses I&L premises above 100,000 sq.ft.) found that gross take-up nationally – shown in **Figure 3.1** - had reached a

[4] Savills and BPF (2022), *Levelling-up – The Logic of Logistics*
[5] Planning Act 2008 (as amended)
[6] DfT (2022), *Future of Freight: a long-term plan*

new annual record of 5.12 million sq.m, **86% above the annual average**[7]. The number of transactions nationally was 220, surpassing the previous record of 172 in 2020[8]. The 2022 mid-year findings of the Big Shed Briefing[9] report that Quarter 2 (Q2) has been the second best Q2 on record, with overall take-up for half-year (H1) reaching a new record of 28.6 million sq.ft., surpassing last year's total and **exceeding the H1 long-term average by 90%**.

Figure 3.1 I&L sector historic national take-up – 100,000+ sq.ft. properties (2007-2022)

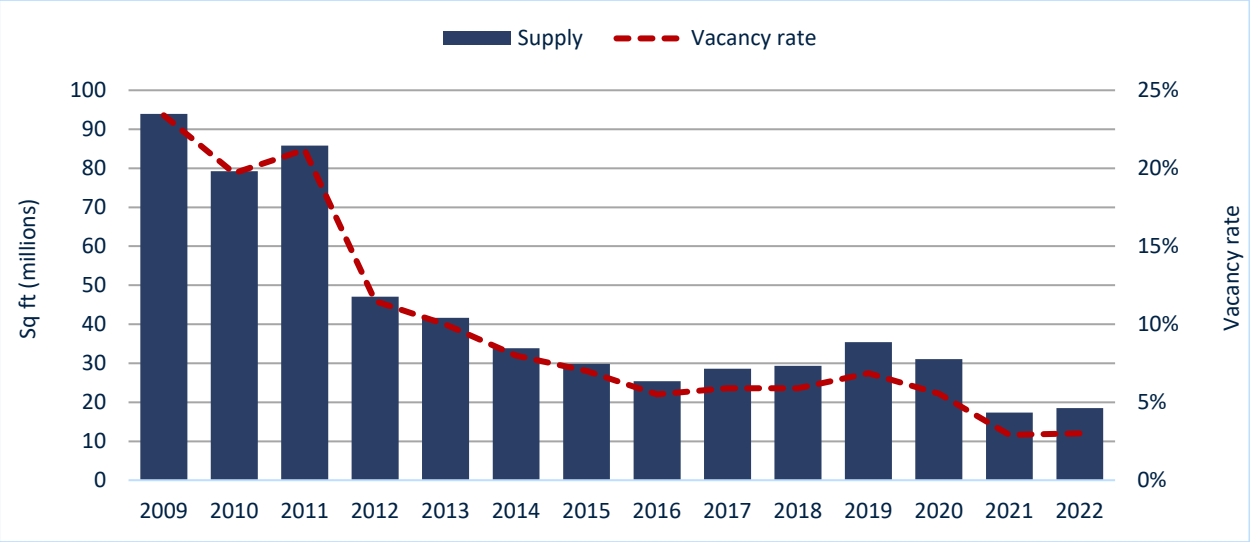


Source: Savills Research

3.2.3 Strong take-up has meant that the **supply of premises nationwide has fallen at its fastest pace ever recorded**, with a national vacancy rate estimated to be 3%[10] as shown in **Figure 3.2**. There is a particularly severe shortage of supply of the best quality Grade A space, and given the increasing costs associated with running warehouses it comes as no surprise that occupiers are gravitating towards better quality buildings with better Environmental, Social and Governance (ESG) features[11].

[7] Savills Research (2022), Big Shed Briefing (January 2022)
[8] Ibid.
[9] Savills Research (2022), Big Shed Briefing (July 2022) f
[10] Ibid
[11] Ibid.

Figure 3.2 National supply and vacancy levels – 100,000+ sq.ft. properties (2009-2022)



Source: Savills Research

3.2.4 Even stronger than the national picture, take-up in the East Midlands was **113% above the long term average** in 2021 (12.39 million sq.ft.); the highest on record[12]. Take-up in the East Midlands in 2021 accounted for around 22.5% of national take-up, highlighting the strategic importance of the region, and by extension the HNRFI PMA, in the I&L market. Again the supply of premises is at an historically low level as evidenced by a regional **vacancy rate which stands at just 1.40%[13] - the lowest of any region nationally**. The average transaction size in the East Midlands has increased substantially in the last year to circa 412,000 sq.ft., highlight the shifting occupier demand towards larger units.

3.2.5 Take-up in the West Midlands too reached a new record in 2021, with 9.38 million sq.ft. accounting for 17% of national take-up[14]. This means that together, the East Midlands and the West Midlands, which the HNRFI PMA sits within, accounted for nearly 40% of national take-up in 2021. Data from the mid-year report show that H1 2022 was the best H1 ever recorded in the West Midlands. The level of supply remains extremely tight which has resulted in prime rents being on a par if not higher than the East Midlands. **The vacancy level is now at 2.77%**[15].

3.3 CURRENT I&L GROWTH DRIVERS

3.3.1 The I&L sector is facing an era of unprecedented change. The past decade has seen the sector undergo a remarkable transformation, reshaping operating models and occupier requirements in ways that are only starting to become recognisable as an industry-wide phenomenon. Logistics uses in particular have shown strong performance for a number of years, but the Covid-19 pandemic has exacerbated existing trends. This has driven

[12] Savills Research (2022), Big Shed Briefing (January 2022)

[13] Ibid

[14] Savills Research (2022) Big Shed Briefing – The Logistics Market in the West Midlands. 0

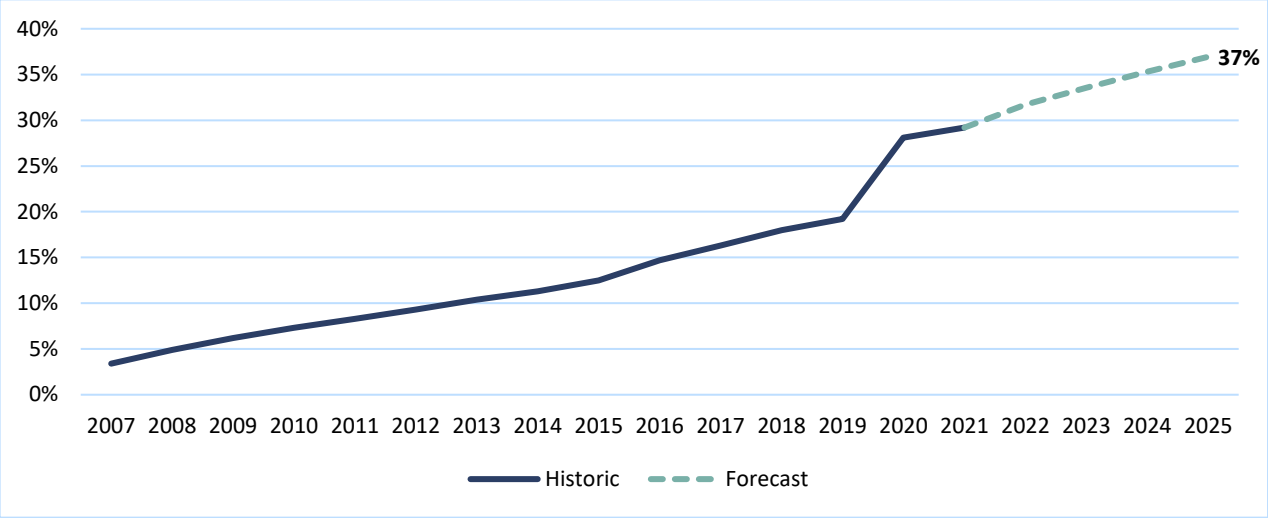
[15] Savills Research (2022), Big Shed Briefing (July 2022)

demand up even further for logistics floorspace while adversely impacting other commercial sectors such as retail and offices.

3.3.2 We consider the shift in habits we have been witnessing – such as the extraordinary growth in **online retailing** – to be structural rather than temporary. As the country's population continues to grow, so will I&L floorspace needs to support household consumption and other sectors of the economy. Statistics collected by the ONS from November 2006 show that the share of internet sales has consistently increased over time and it was at 19% before the onset of the Covid-19 pandemic. During the pandemic, due to lockdowns and restrictions this figure considerably increased and is around 26% as of May 2022[16].

3.3.3 Most commentators agree that online retailing will continue to grow from a higher base than before the pandemic due to behavioural changes such as increased home working and continued demand for rapid parcel deliveries. Forrester Research, a respected source of online retail projections, estimate that online retail will continue to grow but from a higher base reaching 37% by 2025 (**Figure 3.3**). While we appreciate these are just future estimates many online retailers and commentors see online growth moving to 50% of total online sales as being inevitable. One such report, 'The Digital Tipping Point, 2019 Retail Report,'[17] estimated retail sales would reach 53% by 2028. While this time frame appears far too ambitious, the question appears to be more of 'when' rather than 'if.'

Figure 3.3 Internet Sales as a % of Retail Sales (2006-2025)



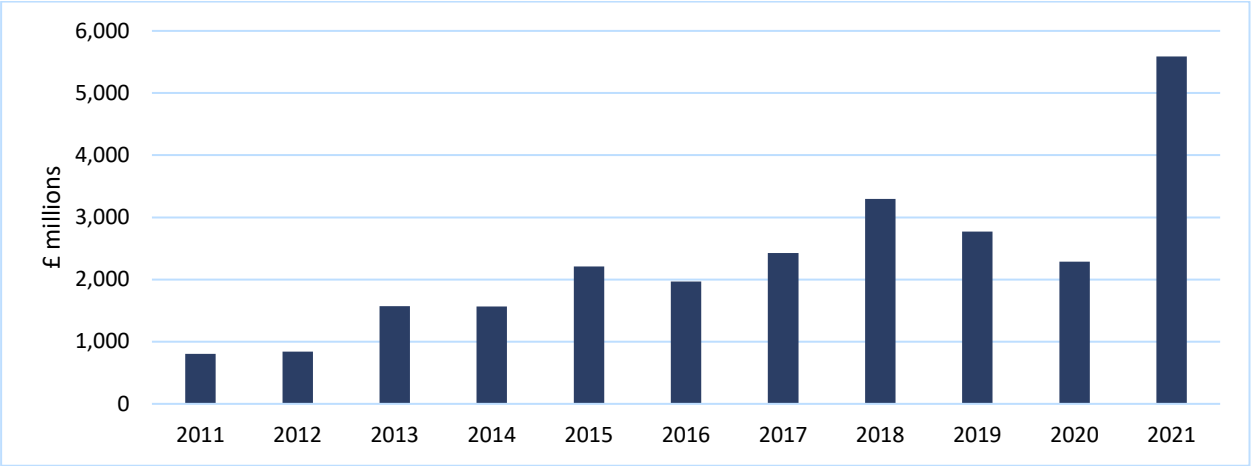
Source: ONS, Retail Sales Index Time Series, Forrester Research, Savills 2021

3.3.4 The growth in online shopping has significant implications on future I&L demand given that e-commerce requires around 3 times the logistics space of traditional bricks-and-

[16] ONS (2022), Internet sales as a percentage of total retail sales (ratio) (%)
[17] The Digital Tipping Point, 2019 Retail Report, Retail Economics and Womble Bond Dickinson

mortar retailers[18]. The link between this growth and warehouse demand is well exemplified by **Figure 3.4** below. As the percentage of online sales reached a record high in 2021, so did the total value of new warehouse projects. The East Midlands and the West Midlands were at the centre of this growth, together accounting for one-third (33%) of the spending on warehouse projects in 2021[19] across Great Britain. This data strongly aligns with the Big Shed Briefing' findings discussed above that saw gross take-up for large sheds reaching an annual record in 2021, with the East Midlands and West Midlands playing a prominent role.

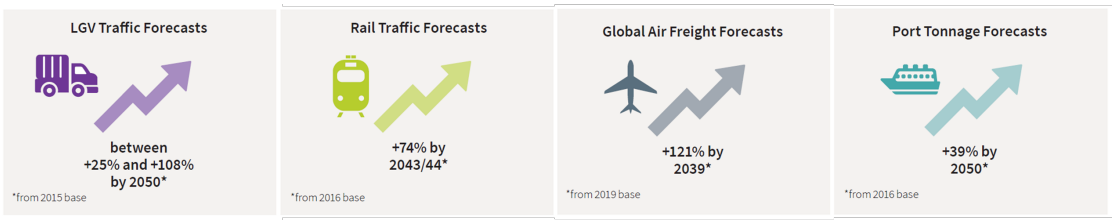
Figure 3.4 Value of warehouse new orders for construction, GB (2011 – 2021)



Source: ONS and Barbour ABI — Construction Output and Employment; Savills

3.3.5 Freight flows are another key driver of I&L floorspace demand. Significant growth is forecast across all **freight** modes (**Figure 3.5**). Freight arriving and leaving the UK needs to be sorted, packaged and distributed via a network of freight handling infrastructure (i.e. ports, airports, rail freight interchanges and motorways) and conveniently located I&L premises in order to reach end customers.

Figure 3.5 Projected growth in freight by Mode

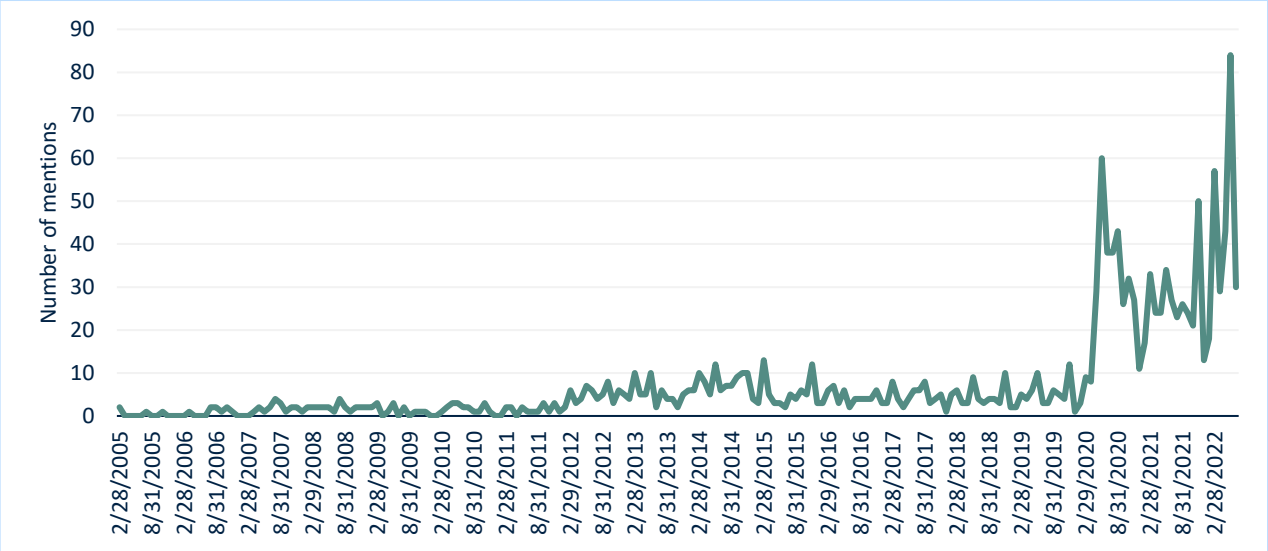


Source: DfT, MDS Transmodal, Boeing, Savills

[18] Prologis (2016), Global E-Commerce Impact on Logistics Real Estate. Internet shopping relies on increased choice for the consumer and also increased delivery speeds to a location of people's choosing. This means that more inventory is required to be located nearer to the general population. This in turn has meant that more and more warehouse space is required.
[19] ONS (2022), *The rise of the UK warehouse and the "golden logistics triangle"* 1

3.3.6 Brexit and Covid-19 have highlighted the level of interconnectedness of international supply chains and their fragility when one or more links break. Companies have started building up greater resilience in their operating models by moving operations either back to the UK (**re-shoring**) or closer by (**near-shoring**) as a means to minimise future supply-chain-induced disruptions. According to a survey carried out in July 2020 by the Institute for Supply Management, 20% of firms were planning to, or have already started to, near-shore or re-shore. These findings are corroborated by a survey carried out by Savills[20] whereby over 80% of respondents expected the Covid pandemic to either 'greatly increase' or 'somewhat increase' on-shoring. Recent data from Sentieo, which analyses listed companies' annual reports, has found that mentions of the term 'near-shoring' have risen dramatically in 2022. Savills are starting to observe new occupier requirements directly related to this phenomenon and expect demand to rise as companies come to terms with running 'just in case' supply chains (leading to increased stock piling) rather than 'just in time'.[21]

Figure 3.6 'Near-shoring' on the rise in company reports (2005-2022)



Source: Sentieo, an AlphaSense company

Near-shoring definition	Re-shoring definition
Transferring a business operation to a nearby country as opposed to a more distant one (i.e. off-shoring)	Moving a business that had gone overseas back to the country from which it had originally relocated

3.3.7 **Figure 3.7** below provides a visual representation of some of the major growth drivers generating the record breaking demand in the I&L sector. While e-commerce and freight growth are two of the most influential, as discussed above, there are several others at play also.

[20] Savills (2020) The impact of Covid-19 on Real Estate. I
[21] Savills (2022), Market in Minutes: UK Commercial

Figure 3.7 I&L Growth Drivers

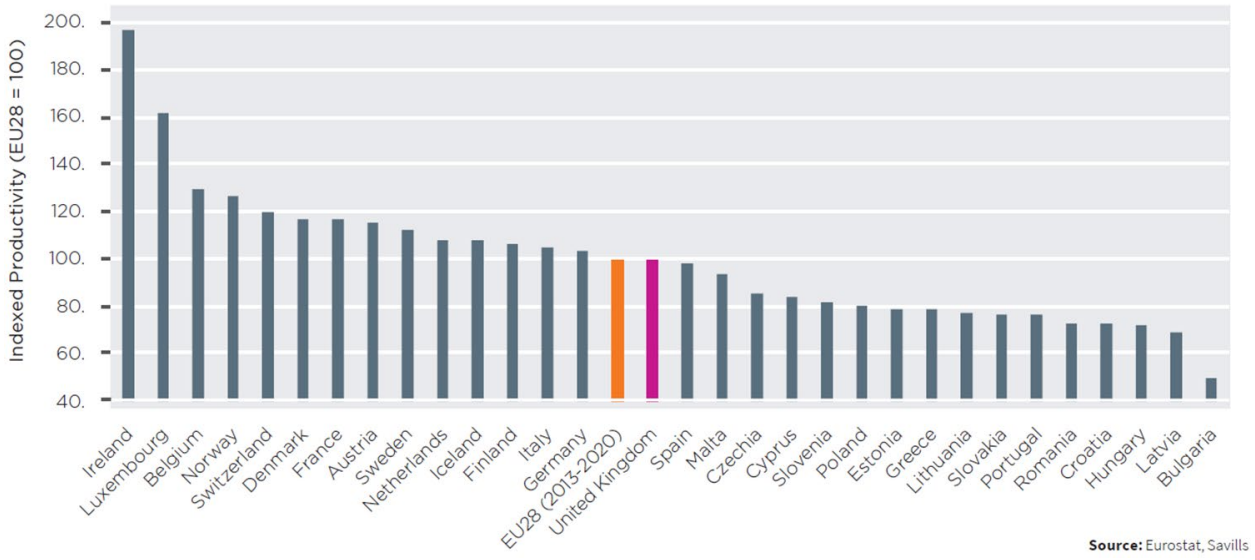
Source: Savills

3.4 THE I&L SECTOR IS A MAJOR CONTRIBUTOR TO THE NATIONAL ECONOMY

3.4.1 The I&L sector is a significant employer of at least 3.8 million people in England and produces £232 billion of GVA annually[22]. Gross Value Added (GVA)[23] per job, currently at £58,000, is 12% higher than the average of all sectors. Its productivity is also predicted to grow at a faster pace, increasing by 29% between 2025 to 2039 compared to 18% across the UK economy as a whole[24]. These are extremely important statistics given the UK's labour productivity currently lags many of its western European peers as shown in **Figure 3.8** below. Improving the UK's labour productivity will become increasingly important in a post Brexit world given its important bearing on attracting inward investment, ability to pay higher wages and higher tax revenues for the Government which can be reinvested in critical services and infrastructure.

[22] ONS (2021), Workforce Jobs by Region and Industry - Jobs in Manufacturing, Transportation and Storage for March 2020; ONS (2021) – England, Regional Gross Value Added (Balanced) by Industry – GVA for Manufacturing, Transportation and Storage in 2019 – England
[23] Gross Value Added (GVA) measures the contribution made to an economy by one individual producer, industry, sector or region.
[24] Oxford Economics (2019), GVA by Sector and Employment by Sector for Manufacturing, Transportation and Storage - UK

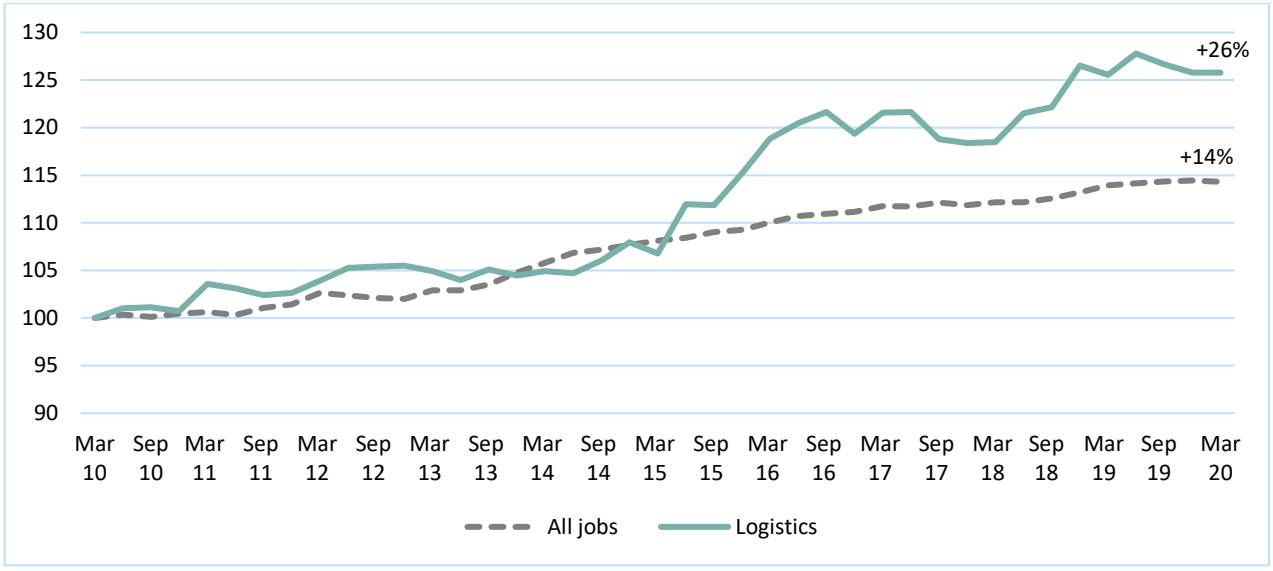
Figure 3.8 Labour productivity per person employed - 2019



Source: Eurostat, Savills

3.4.2 Over the last 10 years the logistics component of the I&L sector has grown by 26% compared to only 14% across the economy as a whole (**Figure 3.9**). Also in terms of business generation, the logistics sector is the fastest growing segment of our economy, both in recent years and over the long term.

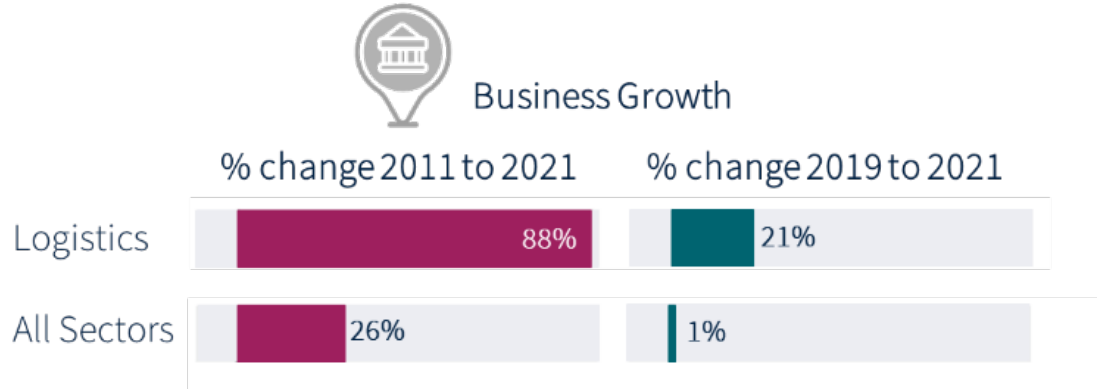
Figure 3.9 Historic Jobs Growth in England (2010-2020)



Source: ONS, Workforce Jobs by Industry and Region, Savills

3.4.3 Between 2011 and 2021 the number of business premises[25] within the logistics sector went up by 88%, much higher than the 26% growth rate across the whole economy. Growth in the logistics sector has continued to accelerate over the last couple of years, with the number of business premises increasing by 21% against just 1% across the whole economy.

Figure 3.10 Growth in business premises



Source: ONS, IDBR: Savills

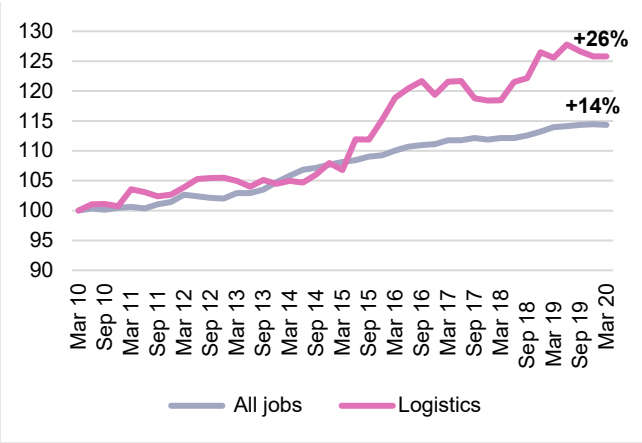
3.4.4 Notwithstanding its importance in terms of employment and GVA contribution, the sector is subject to a number of misconceptions about average pay levels, skills required and types of spaces provided.

3.4.5 Average pay is higher than the UK average. Data from the Office for National Statistics (ONS) show annual wages above average at £30,400 (+£4,600 vs all sectors) for Manufacturing and £30,700 (+£4,900 vs all sectors) for Logistics. Again, the logistics component of the sector is performing above average, with wages between 2019 and 2020 having increased more than in other sectors (+6% growth in logistics vs +4%) which is important in the current inflationary environment. In addition, entry-level jobs in logistics are relatively well-paid, with median annual pay being 47% higher than across jobs in the same occupational category[26].

[25] Business premises refer to local units on the Inter-Departmental Business Register (IDBR), which are individual sites that belong to an enterprise. Only a small minority of businesses operate more than one site (1.5% in transport and storage and 2.1% across all industries). (ONS, 2022)

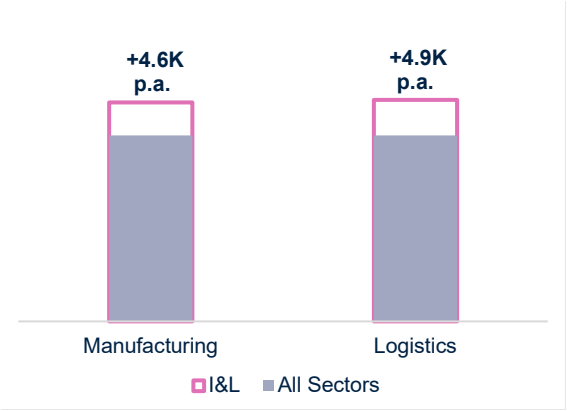
[26] Frontier Economics (2022), *The impact of logistics sites in the UK*

Figure 3.11 Jobs Growth in England (2010-20)



Source: ONS, Workforce Jobs by Industry and Region, Savills

Figure 3.12 I&L jobs pay more (2020)

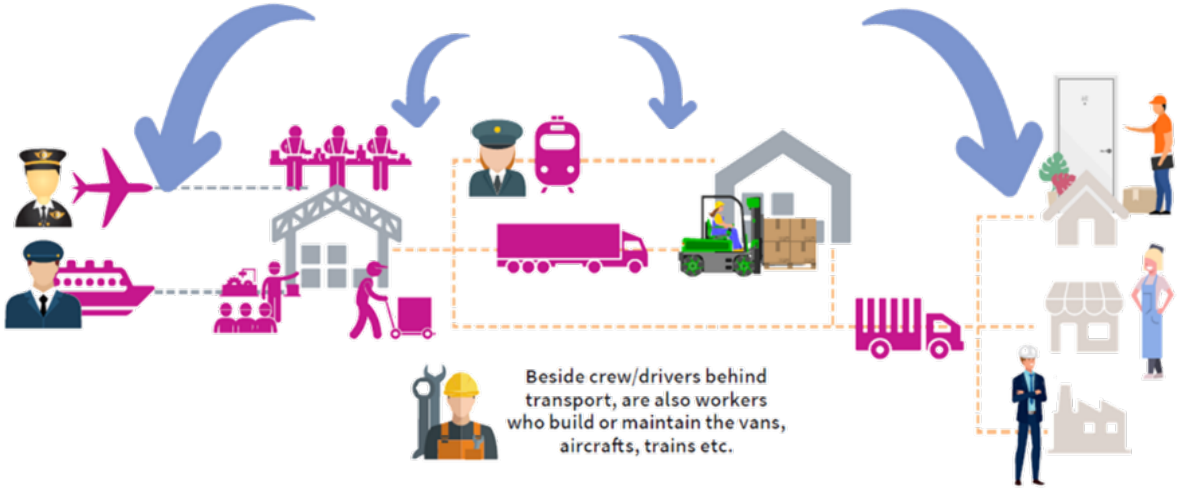


Source: ONS ASHE[27], Savills

3.4.6 I&L's wider supply chain employment is often overlooked in favour of the higher on-site job densities for retail and office uses. Logistics premises are a critical link in the chain alongside the key freight modes that allow goods to enter, leave and move around the country (i.e. ports, airports, rail freight interchanges and motorways). Like warehouses and factories, these freight handling facilities generate employment to drive the planes, trains and boats as well as jobs involved in their maintenance and repair. Jobs are also created at ports, airports and rail freight interchanges as part of their operation. The analysis of ONS Type I FTE multipliers for the Warehousing sector suggests that **for every 10 new warehousing jobs created, another 7 jobs are created offsite across the wider supply chain**.

[27] The ASHE survey for 2021 has been released but we do not report on these figure as we consider them influenced by the Covid-19 economic downturn – e.g. they show that between 2020 and 2021 all sectors employee wages decreased by 0.6%

Figure 3.13 The wide span of supply-chain jobs across the logistics sector



Source: Savills

Levelling-up and the Logistics Sector

3.4.7 As we discuss in our recent publication for the British Property Federation "*Levelling-up – The Logic of Logistics*"[28], the I&L sector can play a pivotal role as part of the Government's levelling up agenda. In GVA terms, the South[29] accounts for 63% of England's total GVA while the North[30] accounts for only 37%. However, over the last 5 years I&L demand (net absorption) in the North has accounted for 70% of the country's total demand.

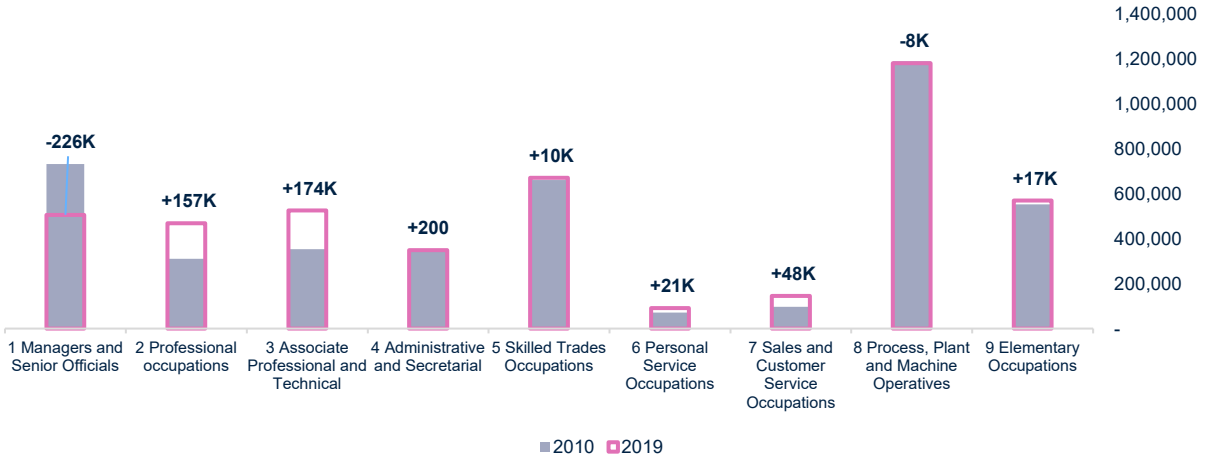
3.4.8 Looking at a more granular level, the East Midlands region has attracted 19% of the country's I&L demand in the last 5 years. This level of investment is much higher than its contribution to national GVA at just 7%. Thanks to the I&L sectors higher productivity, wide-range of well paid jobs and training opportunities offered, its growth can help bridge the gap between the North and South. This point is further substantiated by a recent study[31] that looked into the link between logistics density and growth in employment and GDP per capita. The study found that areas with high logistics density have grown faster than other areas of the UK in both GDP per capita and overall employment.

3.4.9 One factor that makes the I&L sector especially well-suited to support levelling-up objectives is the wide-range of occupations offered and their increased diversification across various skills levels. **Figure 3.14** shows the change in the share of occupations in I&L in 2010 and 2019. While at the beginning of the decade we see a more polarised distribution, with a higher share of managers at one end of the spectrum and more routine occupations at the other end, today we see a higher share of Professional and Associate Professional and Technical roles. These roles are typically associated with higher-skilled engineering and technological professions in response to increased automation and robotics in the sector and more advanced supply chain processes. These office-based roles

[28] Ibid.
[29] London, South East, East of England and South West
[30] North West, West Midlands, East Midlands, Yorkshire and the Humber
[31] Frontier Economics (2022), *The impact of logistics sites in the UK*

are increasingly co-locating alongside production and logistics uses as it is convenient for these people to be closer to the operations they control and analyse.

Figure 3.14 Occupational Distribution in Manufacturing, Transport & Storage (2019 vs 2019)



Source: ONS APS, Savills

3.4.10 This increased occupational diversity means the I&L sector can play an important role in re-employing people that have lost jobs in other sectors of the economy as a result of the Covid-19 pandemic.

3.4.11 The Government's Coronavirus Job Retention Scheme (CJRS) has helped cushion the impact of economic contraction on the job market. However, in spite of this effort, data on the Claimant Counts remain high in most areas of the country. The Claimant Count measures the number of people claiming benefit principally for the reason of being unemployed. As of September 2022, the Count across the East Midlands and West Midlands totalled 275,000 claimants. This is still 22% higher than the Count as of March 2020 (+49,900 claimants).

3.4.12 The growing I&L sector and logistics in particular can help to re-employ these local people. Across the 12 local authorities of the PMA, logistics jobs have increased by 25% between 2015 and 2020 – equivalent to 13,000 additional jobs. This growth is much higher than that observed for other commercial sectors across the PMA. As shown in **Table 3.1**, growth in office-based industries has actually been negative (-0.5%), and the retail sector has been the most affected with a loss of 4,000 jobs across the PMA, equivalent to -5%. This demonstrates that the logistics sector is not just the strongest sector in commercial property terms, but it also a growing segment of the economy with significant employment growth opportunities.

Table 3.1 Employment Growth across the PMA (2015-2020)

	Net Change	% Change
Logistics	13,000	25%
Office	-1,000	-0.5%
Retail	-4,000	-5%

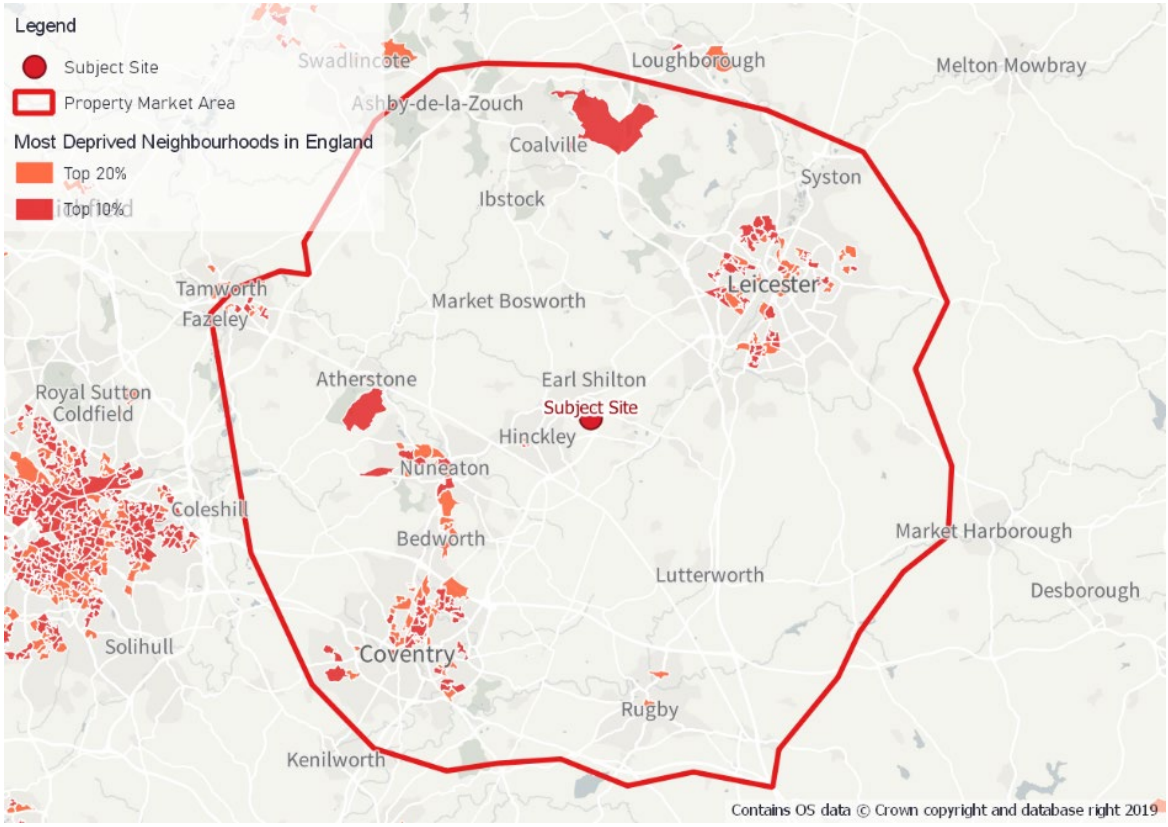
Source: ONS BRES

3.4.13 The logistics sectors is particularly good at providing employment opportunities to those that may not otherwise be in work. Based on a recent independent survey undertaken by YouGov, Frontier-Economics found that 20% of people currently in logistics were previously unemployed and that one in four within this group was long-term unemployed. This link between addressing deprivation via new I&L development is starting to be recognised by the Planning System. For example, in a recent called-in decision[32] for an I&L development in St Helens, the Secretary of State agreed with the Inspector that the jobs brought about by the development *"would have a tangible benefit to the local economy and would provide an early opportunity to help address […] deprivation issues".*

3.4.14 The map in **Figure 3.15** shows that within the HNRFI PMA (as defined in **Chapter 2**) there are numerous neighbourhoods that score among the top 10% and 20% most deprived areas in England. These neighbourhoods are within 30 to 45-minute drive-time from the site, which is considered within commuting distance. This means that the proposed HNRFI will increase the employment opportunities available to the residents of these highly deprived neighbourhoods.

[32] APP/H4315/V/20/3265899

Figure 3.15 Areas of deprivation within commuting distance from the Subject Site



Source: IMD 2019, Savills

3.4.15 The I&L sector also generates significant construction and apprenticeship roles which will increase further as it expands into the future. Savills estimate that if supply-constraints are addressed in the future, the sector could deliver over half a million apprenticeships over the next 10 years.[33] This is extremely important given youth unemployment nationally stands at 12.9%[34]. A number of case studies on the type of employment opportunities, training and research centres that the sector delivers can be found in our recent publication for the British Property Federation "*Levelling-up – The Logic of Logistics*"[35].

3.5 CONCLUSIONS

3.5.1 I&L premises facilitate modern lives and therefore should be considered as 'Critical National Infrastructure,' similar to how major roads, ports, airports and rail freight interchanges are. The sector makes a significant contribution to the national economy and supports a diverse range of well paid jobs.

3.5.2 Current demand within the sector is at unprecedented levels being supported by a number of key growth drivers. There is a strong need to support and foster economic growth in order to support the post-COVID recovery and to secure UK's post Brexit future. It is vital

[33] Savills and BPF (2022), *Levelling-up – The Logic of Logistics*
[34] ONS (2022), Annual Population Survey – unemployment rate of people aged 16 to 24 in England (January 2021 to December 2021)
[35] Ibid.

to support those sectors which are proving to be resilient (such as logistics) and are therefore well-placed to provide new employment opportunities to mitigate job losses in other sectors and underpin the economic recovery.

Chapter 4 ◆ Review of Employment Evidence

4.1 INTRODUCTION

4.1.1 The PMA we defined in **Chapter 2** as being relevant to the HNRFI covers 12 local authority areas[36]. Many of these local authorities have commissioned employment evidence within the last few years with the aim of understanding future I&L demand and available supply within their respective jurisdictions. These are in addition to a regional study that considered large warehouse demand and supply in Leicester and Leicestershire.

4.1.2 However these reports, neither as a set or individually, give a robust forecast of future demand for I&L uses across the PMA. There is no consistency in approach to estimating demand, and while many acknowledge the strong demand and supply shortages, they do not address these issues in their forward estimates.

4.2 REGIONAL EMPLOYMENT EVIDENCE

4.2.1 The primary regional evidence for large warehouses is the GL Hearn Study (2021), 'Warehousing and Logistics in Leicester and Leicestershire.' The study was prepared by GL Hearn with MDS Transmodal for a consortium of local authorities comprising Blaby, Charnwood, Harborough, Hinckley & Bosworth, Melton, North West Leicestershire, Leicester City, Leicestershire County Council, Oadby & Wigston and the Leicester and Leicestershire Local Enterprise Partnership.

4.2.2 The study focuses on large scale logistics warehouse facilities (B8) greater than 9,000 sqm[37], (circa 100,000 sq.ft. plus) and estimates demand across the FEMA over a 21-year period to 2041.

4.2.3 The estimation methods it explores include:

- Labour demand: based on Oxford Economics jobs forecasts which are then translated into floorspace using employment densities and then into a land requirement using a 40% plot ratio;
- Historic trends: based on historic completions data; and
- Replacement + Traffic Growth: based on the need to replace obsolete stock and need to handle freight traffic growth. Traffic growth is translated into floorspace demand, which is then split between road-based and rail-based. Floorspace estimates are translated into land requirements using a 35% plot ratio for road-based and 25% plot ratio for rail-based.

4.2.4 A summary of the floorspace demand estimates from these methods is tabulated below

[36] Please note that the local authorities covered in this evidence base review are those whose entire area (or the majority of its area) forms part of the PMA. These are Blaby, Leicester, Hinckley & Bosworth, Oadby & Wigston, Charnwood, Harborough, North West Leicestershire, Coventry, Rugby, Nuneaton & Bedworth, North Warwickshire, and Tamworth. The regional employment evidence for the Leicester and Leicestershire FEMA is also reviewed as more than half of the local authorities covered (including Blaby) form part of this region..

[37] Warehousing and Logistics in Leicester and Leicestershire: Managing growth and change (April 2021), paragraph 1.2

in **Table 4.1.** The estimates cover the period between 2020 and 2041.

Table 4.1 GL Hearn Estimated Need by Model Type (2020 to 2041)

Type	Model Name	Description	2041 Needs ('000 sqm)
Labour Demand	Labour demand	Assumes the baseline model for all sectors	-50
	Labour demand sensitivity	Assumes baseline model for warehouse and related sectors for growth-only districts	161
Historic Trends	Completions trend	Reflects large warehouse floorspace delivery over the 2012-19 period, projected forwards	2,702
	VOA trend	Models growth-only districts 2011-18 projected forwards, all warehouse and industrial stock including losses	1,941
Replacement + Traffic Growth	High replacement, central traffic growth	30 year stock longevity and baseline traffic growth	2,466
	Low replacement, central traffic growth	40 year stock longevity and baseline traffic growth	2,061
	High replacement, sensitivity test traffic growth	30 year stock longevity and higher traffic growth from heightened e-commerce trading as a result of Covid-19	2,571
	Low replacement, sensitivity test traffic growth	40 year stock longevity and higher traffic growth from heightened e-commerce trading as a result of Covid-19	2,166

Source: GL Hearn, Savills

4.2.5 **The preferred model is the "*High replacement, sensitivity test traffic growth*"** which estimates 2,571,000 sqm of floorspace demand by 2041. This model relies on two factors driving future demand:

- **Replacement Build**: requiring new large-scale warehousing to replace existing obsolete buildings.
    1. This assumes the life of a modern warehouse building is 30 years.
    2. Over a 21-year period this corresponds to 70% of existing stock (21 years / 30 years = 70%).
    3. This leads to an estimated demand of **1,620,000 sqm** by 2041.
- **Growth Build**: future demand driven by the need to handle growth in volume of consumer goods handled.
    1. This is derived from growth in annual freight volumes delivered directly to large scale distribution centres.
    2. The chosen model variant assumes higher growth in traffic induced by heightened e-commerce trading occurring since the onset of the Covid-19

pandemic.

3. The traffic forecasts are then converted into floorspace need "using generally accepted 'conversion factors' which relate annual tonnage throughput and floor space at large scale 'high bay' type warehouses"[38].

4. This leads to an estimated demand of **308,000 sqm** by 2041.

4.2.6 The **Replacement Build and Growth Build** components are then combined as follows:

1. Floorspace demand from the two components leads to a combined demand of **1,928,000 sqm**.

2. A 5 year margin for flexibility is then applied, leading to an overall requirement of **2,571,000 sqm**.

4.2.7 Floorspace demand from the above step is apportioned to rail-served and road-served sites at a 43% and 57% share respectively. Floorspace is then converted to land requirements assuming a 35% plot ratio for road-based and 25% plot ratio for rail-based sites. This equates to demand for **861 ha across Leicester and Leicestershire**.

4.2.8 Below we summarise our views on the methodology adopted in this study.

The preferred model underestimates true demand

4.2.9 A major concern with the preferred model is that its total demand estimate of **2,571,000 sqm** is lower than the historic trend model based on completions at **2,702,000 sqm**. This does not reflect reality given I&L demand for large units, as we discussed in **Chapter 3**, is the strongest it has ever been, both nationally and across the region.

4.2.10 The lack of available supply within the I&L sector is not a recent occurrence but is historic. When supply, as signalled by floorspace availability, is low, demand is 'suppressed' as prospective tenants can't find space in a market. 8% availability is typically referred to as the equilibrium level at a national level when supply and demand are broadly in balance (as sourced in publications such as the GLA's Land for Industry and Transport SPG 2012). **We discuss this further in Chapter 7**.

4.2.11 Below this level, available supply becomes tight and rents increase as occupiers compete for limited available stock. The GL Hearn Study notes the lack of supply in several instances (i.e. Sections 3 and 6), however instead of trying to address this issue, and its impact on demand, it appears to further accentuate the issue by recommending less demand than the historic 'supply-constrained' (i.e. completions) trend.

4.2.12 Historic trends are not reflective of the current and future strength of demand in the sector, while the Study's use of completions as a demand measure is considered to be flawed. Development completions is a supply measure, not a demand measure. While new floorspace can be delivered on existing sites through redevelopment and intensification, it mainly depends on new employment sites being made available

[38] Para 8.25, p.109

(allocated) for development via the planning system. The length of time and complexities involved in delivering sites, particularly those of a strategic scale, is why supply measures (completions) typically lag actual demand (net absorption). Therefore the use of a lagging supply measure, and the projection of this forward into the future, results in an underestimate of 'true' market demand. **If the same approach to housing need was adopted (i.e. forecasting on past housing completions) a plan would be unsound.**

4.2.13 We address these issues as part of the Savills estimation method in **Chapter 7**.

The Study uses different plot ratios

4.2.14 Plot ratios are used to convert floorspace demand to land requirements. The GL Hearn study applies different plot ratios across the different demand models. Such inconsistency is not considered justified. For instance the historic trend model uses a plot ratio of 40% based on historic evidence but the preferred Replacement + Traffic Growth model uses 35% for road and 25% for rail sites.

4.2.15 While we agree these lower plot ratios are more representative of larger unit development, the primary output of each model is their future floorspace demand estimations not plot ratios. By using different plot ratios to translate floorspace to land, the study has removed the ability to compare results from the different models on a 'like for like' basis. For instance the past completions method (including a 5-year margin)[39] has a much higher future floorspace demand requirement but only a slightly higher land requirement (3.3 million sqm gives 869 ha) compared to the preferred method (2.6 million sqm gives 861 ha). This is due to the past completions trend being based on a more land efficient plot ratio of circa 40% (which, it should be noted, is too high and does not reflect market realities for many large unit schemes).

4.2.16 If the same road and rail plot ratios were also used for the past completions method (including a 5-year margin)[40], its land requirement would increase to 1,120 ha (made up of 575 ha (road) and 545 ha (rail)). This is **259 ha higher** than the preferred method (861 ha).

Several key assumptions are not substantiated

4.2.17 Based on an assessment of trends within the I&L sector, the study separately quantifies the need for rail-served and non-rail (road-based) floorspace and land.

4.2.18 The Study notes that new warehouses are constructed partly to accommodate growing traffic volumes over the long term – this forms the 'growth build' element of the Study's preferred demand forecasts. The focus is commodities which pass through large scale distribution centres (excluding bulk and semi-bulk cargoes such as aggregates and forest products) – in 2019 and forecast to 2041. These specific commodities are not identified in the Study, but are set out in the Leicester and Leicestershire Strategic Distribution Sector (SDS) Study Part A Interim Report, published in 2014. They include Beverages, Food (fresh, perishable and non-perishable), Furniture, Clothing, Manufactured Articles, Paper and

[39] A five year margin of flexibility of 643,000 sqm is added to the past completions estimation of 2.7 million in order to compare the preferred method on a like for like basis
[40] Ibid

Card (including packaging), Parcels and Wood/Cork Manufactures[41].

4.2.19 The current and forecast freight volumes are produced using the MDS Transmodal GB Freight Model. For those commodities which pass through large scale distribution centres, it estimates the total volume of cargo currently destined for Leicestershire, and the proportion estimated to be delivered directly to large scale distribution centres.

4.2.20 As discussed in **Chapter 3** significant growth is forecast across all freight modes, with LGV traffic estimated to grow between +25% and +108% by 2050 and rail traffic by +74% by 2043/44. However, in spite of this strong forecast growth, the preferred model, based on freight traffic forecasts, predicts future floorspace demand below past completions. If freight is forecast to grow, and we know freight growth is linked to demand for I&L floorspace, it is therefore not reasonable to expect lower demand for I&L floorspace than past completions – as the preferred model suggests.

4.2.21 The Study estimates that 45% of road freight traffic destined for the East Midlands will be delivered to a distribution centre (assumed to be a unit of 9,000 sq. m plus). This is based upon research undertaken as part of the East Midlands Strategic Distribution Study prepared by Savills and MDS Transmodal which was published in 2006. As noted at **Chapter 3**, there have been significant changes in the sector since this time including the significant growth of e-commerce. The accuracy of this figure now (and even more so in 2041) is therefore questionable.

4.2.22 The main issue is likely to be around the assumption for converting freight traffic to floorspace. This key assumption is not explained in the document, its only reference at paragraph 8.25 is to say "*generally accepted conversion factors.*" This is a fundamental assumption in the model and should have been presented with more transparency. In contrast, more detail was provided for the alternative methods not taken forward in the Study. For instance, for the labour demand method, the conversion factor when relating labour demand (jobs) to floorspace was clearly stated as based on densities from the HCA's 2015 guide, which we recognise as industry standard.

The targets for rail served sites appear unrealistic

4.2.23 The Study considers three scenarios in relation to the proportion of new build warehousing required at rail-served sites (i.e. 26%, 43% and 60% rail). 26% is already an ambitious figure while 60% is not justified as being realistic, neither is the 43% mid-point.

4.2.24 The lower scenario (26%) is based on forecasts by Network Rail undertaken in 2018 and the highest scenario is on the assumption that all demand for units of 25,000 sq. m is met at rail served sites, with the final scenario of 43% representing a middle ground. The Study asserts that the proportion of new floorspace to be rail-served should be in excess of the Network Rail forecasts as a result of changes in national planning policy, high growth rates in intermodal rail freight, the cost competitiveness of rail freight services over road, and the decarbonisation agenda.

4.2.25 Clearly the UK and Golden Triangle need more SRFIs but current supply is limited.

[41] MDS Transmodal & Savills (2014) Leicester and Leicestershire Strategic Distribution Sector Study: Part A Interim Report, para 3.2, footnote 6

According to Savills' analysis, between 2015 and 2021, delivery of SRFI floorspace (at Prologis RFI DIRFT and East Midlands Gateway) made up only 11% of total new floorspace delivered over 9,000 sqm in the East Midlands region. This rises to 20% between 2015 and 2023 (accounting for current and future deliveries at EMG, DIRFT and Northampton Gateway). This is well below the mid-point of 43%, assumed by the Study.

4.2.26 This clearly indicates HNRFI is desperately needed if rail served sites are to account for a larger proportion of I&L development.

Air freight and LGV freight flows appear to be ignored

4.2.27 The growth build element of the preferred model does not appear to take into account the role of air freight and associated I&L demand. This is despite East Midlands Airport (EMA) handling the second-highest volume of air freight in the UK[42], after Heathrow, and being the UK's largest dedicated air cargo operation, making it the country's most important airport for express freight[43]. EMA was one of the top 10 airports in Europe by air traffic movements during the middle of the Covid-19 pandemic[44]. The Study also fails to account for the Airport's ambition to treble its cargo activity to 1 million tonnes a year over the next 20 years[45], which will likely lead to increased demand for I&L premises located near the airport.

4.2.28 Similarly freight moved by LGV appears to have been ignored with only HGV movements considered. Paragraph 8.21 in the Study notes the road freight data is derived from the Department for Transport's Continuing Survey of Road Goods Transport (CSRGT) which obtains details of domestic activity of GB-registered HGVs. Therefore LGV traffic, which is estimated to grow between +25% and +108% by 2050, as discussed in **Chapter 3**, is not taken into account. While we appreciate that HGV movements are more linked to larger sheds, to infer LGV traffic has zero relationship is not correct. This omission has likely led to underestimates in future floorspace demand.

4.3 LOCAL EVIDENCE BASE

4.3.1 This subsection reviews the latest employment evidence commissioned across the PMA at local authority level. Our review focuses on the following criteria so as to understand each local authority's approach to understanding I&L demand and supply:

- Segment of market covered (use classes, local vs. sub-regional demand; non-strategic vs. strategic B8 demand)
- Demand methodology
- Lookback period (if applicable)
- Adjustments to demand estimates (e.g. margins for flexibility, accounting for losses in

[42] Civil Aviation Authority (2021) UK Airport Data; Table 14 International and Domestic Freight
[43] MAG - East Midlands Airport on Cargo
[44] Manchester Airports Holdings Limited Unaudited Interim Report and Condensed Consolidated Financial Statements for the Six Months Ended 30 September 2020
[45] MAG Property and MAG – East Midlands Airport (2018), East Midlands Airport - The Region's Global Gateway

floorspace, adjusting forecasts to reflect local market conditions)

- Total demand estimates
- Local Plan carryover
- Commentary on rail-based sites

4.3.2 **Table 4.2** provides a summary of the studies that are reviewed in this section. The studies have been commissioned between 2015 and 2022, meaning that some of the evidence is likely out of date. Furthermore, each study covers a different time period, ranging between 16 and 25 years.

Table 4.2 Employment Studies across PMA

Local Authority	Study Name	Time Period Covered
Blaby	Leicester and Leicestershire Housing and Economic Development Needs Assessment (HEDNA) (2017)	2011-2031
Leicester	Leicester Economic Development Needs Assessment (EDNA) (2020)	2019-2036
Hinckley & Bosworth	Hinckley & Bosworth Employment Land and Premises Study (ELPS) (2020)	2019-2036
Oadby & Wigston	Oadby & Wigston Employment Land and Premises Study (ELPS) (2017)	2011-2031
Charnwood	Charnwood Employment Land Review (ELR) (2018)	2011-2036
Harborough	Leicester and Leicestershire Housing and Economic Development Needs Assessment (HEDNA) (2017)	2011-2031
North West Leicestershire	North West Leicestershire Need for Employment Land Study (NELS) (2020)	2017-2039
Rugby	Rugby Employment Land Study (ELS) (2015)	2015-2031
Coventry	Coventry Employment Land Study (ELS) (2015)	2011-2031
Nuneaton & Bedworth	Nuneaton and Bedworth HEDNA (2022)	2021-2039
North Warwickshire	North Warwickshire Update to Employment Land Review (ELR) (2017)	2011-2031
Tamworth	Lichfield & Tamworth HEDNA Update (2020)	2018-2036

Source: Savills (2022)

Segment of the Market

4.3.3 As shown in **Table 4.3**, each study appears to cover different segments of the I&L market in order to estimate future I&L demand. Half of the studies cover the entire I&L market, while the other half focus only on local demand for smaller units of less than 9,000 sqm (circa 100,000 sq.ft).

4.3.4 This means it is not possible to directly compare the findings of each study as there is no consistency in approach.

Table 4.3 Segment of I&L Market Covered

Local Authority	Segment of I&L Market Covered
Blaby	B1c, B2, small B8 (<9,000 sqm)
Leicester	B1c, B2, B8
Hinckley & Bosworth	B1c, B2, B8
Oadby & Wigston	B1c, B2, B8
Charnwood	B1c, B2, B8
Harborough	B1c, B2, small B8 (<9,000 sqm)
North West Leicestershire	B1c, B2, small B8 (<9,000 sqm)
Rugby	B1c, B2, B8 (local market only)
Coventry	B1c, B2, B8 (local market only)
Nuneaton & Bedworth	B1c, B2, B8
North Warwickshire	B1c, B2, B8 (local market only)
Tamworth	B1c, B2, B8

Source: Savills (2022); Leicester & Leicestershire HEDNA (2017); Leicester EDNA (2020); Hinckley & Bosworth ELPS (2020); Oadby & Wigston ELPS (2017); Charnwood ELR (2018); Northwest Leicestershire NELS (2020); Rugby ELS (2015); Coventry ELS (2015); Nuneaton and Bedworth HEDNA (2022); North Warwickshire Update to ELR (2017); Lichfield & Tamworth HEDNA Update (2020)

Demand Methodology

4.3.5 The majority of studies use past completions to estimate future I&L demand, but there are variations in lookback periods and adjustments (discussed further below). Coventry uses the labour demand method, North Warwickshire uses the labour supply method, while North West Leicestershire uses GVA forecasts to estimate future demand.

4.3.6 What the studies all have in common is that the methodologies used do not accurately estimate future I&L demand and likely lead to a significant underestimation of future I&L demand. We discuss each method in turn below.

Table 4.4 Preferred Demand Estimation Methodology

Local Authority	Preferred Estimation Method
Blaby	Past completions (excluding B8 >9,000 sqm)
Leicester	Past completions
Hinckley & Bosworth	Past completions
Oadby & Wigston	Past completions
Charnwood	Past completions (non-strategic only)
Harborough	Past completions (excluding B8 >9,000 sqm)
North West Leicestershire	GVA ouputs

Local Authority	Preferred Estimation Method
Rugby	Past completions (Rugby local market only)
Coventry	Labour demand
Nuneaton & Bedworth	Past completions
North Warwickshire	Labour supply
Tamworth	Past completions (using planning permissions data)

Source: Savills (2022); Leicester & Leicestershire HEDNA (2017); Leicester EDNA (2020); Hinckley & Bosworth ELPS (2020); Oadby & Wigston ELPS (2017); Charnwood ELR (2018); Northwest Leicestershire NELS (2020); Rugby ELS (2015); Coventry ELS (2015); Nuneaton and Bedworth HEDNA (2022); North Warwickshire Update to ELR (2017); Lichfield & Tamworth HEDNA Update (2020)

Past Completions

4.3.7 The past completion trends (either gross or net, if losses are taken into account) is based on built floorspace. It should be noted that Tamworth's HEDNA Update (2020) uses planning permissions data due to the lack of available data for past completions, with an assumption that 75% of permissions will be implemented, but no justification for this assumption[46].

4.3.8 Savills does not consider development completions as an indicator of demand, but rather as a supply measure. The leading demand measure of floorspace is "net absorption", which indicates the quantum of net floorspace occupied over a period of time (i.e. move-ins minus move-outs) based on leasing deals. Development completions on the other hand is a supply measure (rather than a demand measure) which calculates new floorspace delivered. While new floorspace can be delivered on existing sites through redevelopment and intensification, it mainly depends on new employment sites being made available (allocated) for development via the planning system. For this reason, net absorption is a more accurate reflection of demand than historic completions.

4.3.9 It is not uncommon for market demand (net absorption / leasing deals) to be higher than supply based measures (take-up / completion) given the complexities and length of time it can take to allocate employment land through the Local Plan process, achieve planning permission and then build new I&L premises.

Labour Demand

4.3.10 The labour demand method is not appropriate for the estimation of future I&L land demand, as employment forecasts often reflect the continued restructuring of the economy away from industry towards services, which underestimate the I&L sector's performance. Further, changes to the I&L market mean that growth in floorspace/land is not accurately predicted by changes in jobs. The I&L sector does not comprise low-skilled and low-paid jobs , nor do I&L companies functions neatly fit into Industrial or Logistics.

[46] GL Hearn (2020) Lichfield & Tamworth HEDNA Update, para 11.36, p.124

4.3.11 **Chapter 3** demonstrates that I&L companies are increasingly co-locating office, research & development and administrative functions with I&L operations. Such co-located employment is not well captured by labour demand models as these assume I&L activities are wholly accommodated within a narrow set of Standard Industrial Classification ('SIC') codes.

4.3.12 The underestimation of future demand from the labour demand methods is apparent when historic jobs growth in the logistics sector are compared with future job projections from major statistics houses. With reference to **Figure 3.1** below, logistics jobs nationally have grown by 23% over ten years. However, labour forecasting products including Experian, East of England Forecasting Model ('EEFM') and Oxford Economics predict much lower levels of growth, including negative growth, over the next 20 years **(Figure 4**). This does not reflect reality given logistics is performing strongly with recent demand being 86% above the long term trend.

Figure 4.1 Historic Growth in Logistics Jobs, England

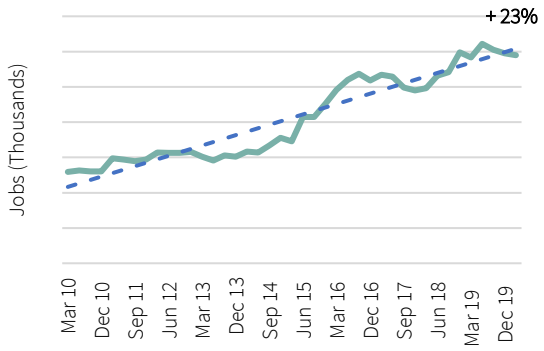
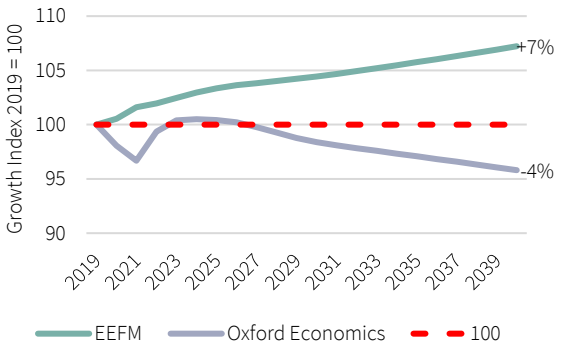


Figure 4.2 Projected Growth in Logistics Jobs, England



Source: Savills (2022); LFS; EEFM; OE

Labour Supply

4.3.13 North Warwickshire's Employment Land Review (ELR) Update (2017) uses the labour supply method to estimate future I&L demand. The method takes into account emerging evidence and discussions through the Duty to Cooperate on the overall scale of housing provision in the Borough; and seeks to consider the scale of employment land provision which might be necessary to delivered balanced growth in housing and employment in the Borough[47]. The report considered the employment needs arising from a range of labour supply scenarios based on the latest evidence on housing needs including potential unmet housing needs from Coventry, Tamworth, and Birmingham.

4.3.14 Similar to the labour demand method, the use of econometric forecasts means that logistics job growth is usually underestimated, meaning that future employment land demand will also likely be underestimated.

[47] GL Hearn (2017) North Warwickshire – Update Employment Land Review for the Period 2011-33, para 1.2, p.1

4.3.15 Another drawback of this method is that housing growth at the local level has a limited relationship to I&L markets which have a more regional demand profile.

GVA Outputs

4.3.16 North West Leicestershire's NELS (2022) uses GVA output forecasts to estimate future I&L demand (GVA per sqm) using Experian (July 2020) and Oxford Economics (August 2020) data.

4.3.17 The GVA output forecasts are translated into employment floorspace using densities based on "*economic data and the Valuation Office Agency (VOA) floorspace statistics for 2017*"[48] in terms of £ million of GVA per sqm. This results in an estimated 26,126 sqm per annum (p.a.) from Experian and 27,566 sqm p.a. from Oxford Economics. Using this density effectively assumes that industrial activities on strategic and non-strategic sites contribute in equal measure to GVA on a £ per sqm basis. This assumption seems unlikely to hold true in reality and does not appear to be validated in the study, which we consider a major flaw that can easily lead to over-estimation or under-estimation.

4.3.18 GVA outputs are a flawed metric for estimating future floorspace, and by extension, land demand. The I&L sector, like all property markets, is driven by the relationship between the supply of floorspace / land and how much demand there is for this supply. When demand exceeds supply, availability reduces and rents typically rise as occupiers compete for limited available stock. The strong demand and rising rents make building new floorspace attractive for investors. However the delivery of new floorspace primarily relies upon new sites coming forward via the planning process (notwithstanding some net uplift in floorspace can be achieved via the intensification of existing sites).

4.3.19 In England, market demand and supply data is readily available via industrial agents, planning application information, Authority Monitoring Reports and commercial databases such as CoStar and EGi which record transactional information (demand), properties available to the market (availability) as well as data on rents, yields and tenant sectors. Given the wealth of market information available it is unclear as to why the NELS (2020) has relied primarily on third party statistical models to try and understand future market demand rather than market data itself.

None of the above demand methods account for 'Suppressed Demand'

4.3.20 When supply, as signalled by floorspace availability, is low, demand is 'suppressed' as prospective tenants can't find space in a market. 8% is typically referred to as the equilibrium level at a national level when supply and demand are broadly in balance (as sourced in publications such as the GLA's Land for Industry and Transport SPG (2012). Below this level available supply becomes tight and rents increase as strong occupier demand compete for limited available stock. As discussed in **Chapter 5** we have calculated the equilibrium availability rate for 100,000+ sq.ft. properties across the PMA and found it to be 5.5%. Availability has been below this rate in 8 of the last 10 years, with availability currently at just 2.8%, indicating a highly-constrained market.

[48] Para 3.12 p.16

4.3.21 The studies, in particular those that have used past completions, have taken no account of demand that has been lost from each local authority area due to supply constraints and therefore they present a demand profile based on a supply-constrained historic trend (or 'suppressed demand').

4.3.22 Savills have developed a methodology that estimates a market's suppressed demand when supply is below the equilibrium rate (i.e. when supply and demand are in balance). This can be added to historic demand projections to give a more realistic picture of future demand. We address this in **Chapter 7** of this report.

Lookback Periods & Adjustments

4.3.23 **Table 4.5** sets out the various lookback periods for studies that have used the past completions method or for those that have added a 5-year margin for flexibility to their future demand estimates based on past completions.

4.3.24 As discussed above, past completions is a flawed measure to estimate future demand given that it is a supply measure. In fact, Rugby's ELS (2015) has used longer and less recent lookback periods when looking at past completion trends due to the recent and current supply-constrained nature of the I&L market, while the Nuneaton and Bedworth HEDNA (2022) notes that it uses the recent 5-year completion trend (13,498 sqm p.a.) to estimate future demand to reflect the supply-constrained nature of the market[49], but then uses the longer 10-year completions trend (17,248 sqm p.a.) for the flexibility margin. While these studies acknowledge the under-supply issues that are suppressing market demand, they do not factor these into their method in a quantitatively robust way.

4.3.25 It should be noted that the Charnwood ELR (2018) and North West Leicestershire NELS (2020) do adjust their forecasts to account for a 7.5% vacancy rate to allow for units that are empty between tenancies and generally for choice and competition. This broadly corresponds with the typical 8% equilibrium availability rate (ie: when supply and demand are in balance), as discussed above. However, as this adjustment is made to forecasts using the flawed past completions and GVA output methods, future I&L demand is still likely to have been underestimated.

Table 4.5 Lookback Periods & Adjustments

Local Authority	Lookback Period	Adjustments
Blaby	Longest available trend period available based on local authority data[50] - unclear what period this is	N/A
Leicester	1997-2019	5-year margin based on past completions trend
Hinckley & Bosworth	1996-2019	5-year margin based on past completions trend
Oadby & Wigston	1996-2017	5-year margin based on past completions trend

[49] Nuneaton and Bedworth HEDNA (2022), para 9.40
[50] Leicester and Leicestershire HEDNA (2017), footnote 37, p.181

Local Authority	Lookback Period	Adjustments
Charnwood	Longest available trend period available based on local authority data[51] from Leicester & Leicestershire HEDNA (2017) - unclear what period this is; supplemented by recent completions to 2017	Adjustment to account for vacancy rate of 7.5%
Harborough	Longest available trend period available based on local authority data[52] - unclear what period this is	N/A
North West Leicestershire	N/A	Adjustment to account for vacancy rate of 7.5%
Rugby	1999-2004; 1995-2004	N/A
Coventry	N/A	CE forecasts adjusted to reflect short-term jobs trend using BRES data for certain sectors; 5-year margin based on past completions trend (lookback period of 2000/2001 to 2014/2015)
Nuneaton & Bedworth	2011/12-2021/21; 2016/17-2020/21	5-year margin based on 2011/12-2020/21 past completions trend
North Warwickshire	N/A	CE forecasts adjusted to reflect short-term jobs trend using BRES data for certain sectors; 5-year margin based on (non-strategic) past completions trend (lookback period of 2012-2016)
Tamworth	2007-2018	N/A

Savills (2022); Leicester & Leicestershire HEDNA (2017); Leicester EDNA (2020); Hinckley & Bosworth ELPS (2020); Oadby & Wigston ELPS (2017); Charnwood ELR (2018); Northwest Leicestershire NELS (2020); Rugby ELS (2015); Coventry ELS (2015); Nuneaton and Bedworth HEDNA (2022); North Warwickshire Update to ELR (2017); Lichfield & Tamworth HEDNA Update (2020)

4.3.26 Most of the studies' lookback periods are far too long (except for Nuneaton & Bedworth which considers more recent completions), over which time the demand drivers underpinning I&L need, and the characteristics of the sector itself, have changed significantly. These changes have resulted in increasing demand for I&L floorspace. Including take-up from as far back as the 1990s will only have served to dampen current and future demand given current day growth drivers will not have been taken into account. These include online retailing growth; housing growth; increase in re-shoring from Brexit; and the growth in UK freight handled. We discuss each in turn below.

Growth in online retailing

4.3.27 As discussed in **Chapter 3**, exponential growth in online retail is probably the most quantifiable of the major changes driving growth in the I&L sector. Statistics collected by the ONS show that the share of internet sales has consistently increased over time from 2.5% in November 2006 to 19% before the onset of the Covid pandemic[53]. During the

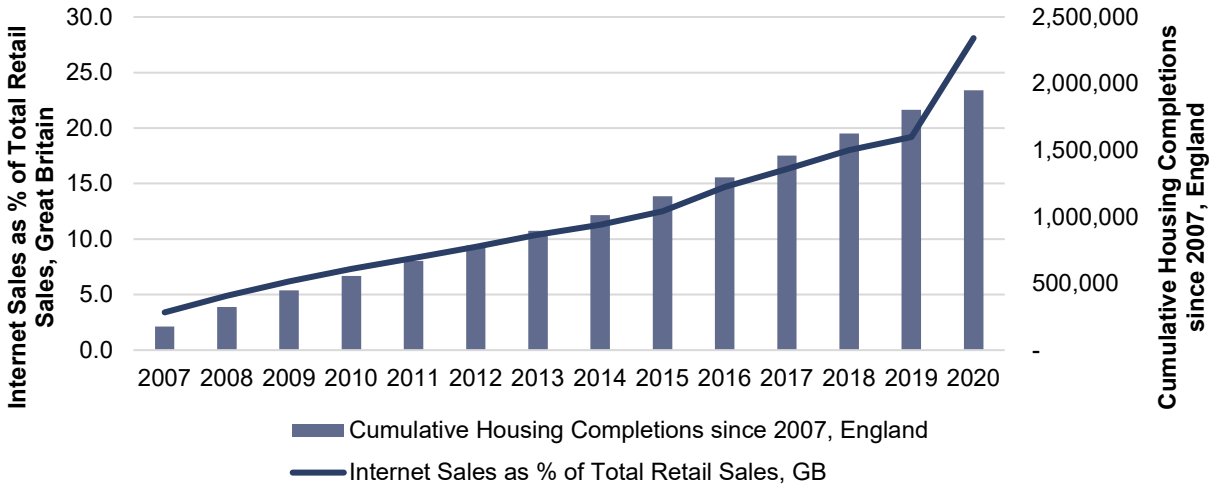
[51] Leicester and Leicestershire HEDNA (2017), footnote 37, p.181
[52] Leicester and Leicestershire HEDNA (2017), footnote 37, p.181
[53] ONS (2022), Internet sales as a percentage of total retail sales (ratio) (%)

pandemic, due to lockdowns and restrictions this figure considerably increased and is around 26% as of May 2022[54]. The growth in online shopping has significant implications on future I&L demand given that e-commerce requires around 3 times the logistics space of traditional bricks-and-mortar retailers[55]. Most commentators agree that online retailing will continue to grow from a higher base than before the pandemic due to behavioural changes such as increased home working and continued demand for rapid parcel deliveries. Forrester Research, a respected source of future online retail projections, estimate that online retail will reach 37% of all retail sales by 2025[56].

Housing growth

4.3.28 This exponential growth in online retailing is both a function of the way we now live and continued housing growth in the UK. As shown in **Figure 4.3**, housing growth at the national level has broadly tracked the growth in online retailing before the onset of the Covid-19 Pandemic, during which time online retailing has spiked even higher. Between 2001 (furthest date that data was available) and 2020, the number of homes across the PMA has increased by 19%[57]. Online retailing relies on increased choice for the consumer and also increased delivery speeds to a location of people's choosing. This means that more inventory is required to be located nearer to the general population which has been increasing. This in turn has meant that more and more warehouse space is required both by online retailers but also traditional bricks and mortar retailers who are adapting their supply chains to compete. Again this modern day trend will not have been accounted for in the various studies by merely projecting forward the change in employment land which is a supply measure.

Figure 4.3 Internet Sales as a % of all Retail Sales and Dwelling Completions since 2007



Source: ONS, MHCLG, Savills

[54] Ibid
[55] Prologis (2016), Global E-Commerce Impact on Logistics Real Estate
[56] Forrester Research (2021) Online Retail Sales by Country, 2002-2025
[57] MHCLG (2021): Table 125: Dwelling stock estimates by local authority district, 2001-2020

Covid-19 & Brexit

4.3.29 Covid-19 has also highlighted the level of interconnectedness of existing international supply chains and their fragility when one or more links break. Companies have started building up greater resilience in their operating models and are preparing to minimise future supply-chain-induced disruptions. This is expected to accelerate near-shoring[58] or re-shoring[59] trends which will increase demand for I&L floorspace as discussed in **Chapter 3**.

Growth in UK Freight

4.3.30 Freight volumes are another key growth driver of I&L floorspace need. Freight arriving and leaving the UK needs to be sorted, packaged and distributed via a network of freight handling infrastructure (i.e. ports, freight handling airports, rail freight interchanges and motorways) and conveniently located I&L premises in order to reach end customers. Freight volumes are forecast to grow significantly which will increase demand for I&L space in the UK, as discussed in **Chapter 3.** Again the growth in UK freight volumes will not have been accounted for in the historic take up figures.

Global Financial Crisis

4.3.31 Many of the studies' lookback periods cover the Global Financial Crisis (GFC), a demand shock that was felt throughout the entire world economy and took years to recover from. With reference to **Table 4.6** below, net absorption (for premises larger than 100,000 sqft) has been more than 4 times higher since 2012 across the PMA than during the GFC (2009 - 2011). This clearly shows the dampening impact the GFC had on I&L demand and ultimately the studies' forward projections by including it within their lookback periods[60].

Table 4.6 Net Absorption p.a. (2009-2011 versus 2012-2021) in the PMA

	Ave. Net Absorption p.a. (2009-2011) (sqft)	Ave. Net Absorption p.a. (2012-2022 YTD) (sqft)
PMA	492,153	2,199,971

Source: Savills (2022); CoStar (2022)

Future Demand Estimates

4.3.32 **Table 4.7** presents the future I&L demand estimates for each study, including adjustments. The wildly varying results are symptomatic of the different demand methods and assumptions used in each Local Authority's employment evidence. There is no consistency hence why I&L demand ranges from a low of 0.3 ha per annum (Tamworth) to a high of 9.5 ha per annum (Coventry).

[58] 'Near-shoring' concerns transferring a business operations to a nearby country as opposed to a more distant one (i.e. off-shoring)
[59] 're-shoring' means Moving a business that had gone overseas back to the country from which it had originally relocated
[60] Data used for the period during the GFC is from 2009 to 2011 as CoStar's historic data is only available from 2009 onwards

Table 4.7 Future I&L Demand Estimates

Local Authority	Total Future I&L Demand Estimate	Future I&L Demand p.a.	Notes
Blaby	31 ha	1.2 ha	Based on 2011-36 estimate
Leicester	57.4 ha	3.4 ha	N/A
Hinckley & Bosworth	62.5 ha	3.7 ha	This estimate is for all employment land; split between use classes has not been defined
Oadby & Wigston	7.5 ha	0.4 ha	Although the demand estimates cover the whole I&L market, the ELPS (2017) does not forsee any demand for strategic B8 uses due to a lack of strategically located sites compared with nearby local authorities
Charnwood	54.5 ha	2.2 ha	This includes a 10 ha allowance for strategic uses (which would meet local, not regional or sub-regional demand as Charnwood has very few large B8 sites and nearby local authorities are better supplied with highly accessible sites)
Harborough	30 ha	1.5 ha	N/A
North West Leicestershire	47 ha	2.1 ha	N/A
Rugby	96-128 ha	6-8 ha	Demand estimates based on the mid-point of longer lookback periods (1999-2004 and 1995-2004) because of lower competions trend for more recent years (2009-14)
Coventry	190 ha	9.5 ha	It is not made clear in the ELS (2015) as to why this figure and method were chosen
Nuneaton & Bedworth	80.5 ha	4.5 ha	Demand estimates based on latest completions data (2016/17-2020/21) as it reflects the supply-constrained nature of the I&L market; margin is based on the 10 year average which shows a higher completion rate
North Warwickshire	29-87 ha	1.3-4.0 ha	N/A
Tamworth	5.2 ha	0.3 ha	N/A

Savills (2022); Leicester & Leicestershire HEDNA (2017); Leicester EDNA (2020); Hinckley & Bosworth ELPS (2020); Oadby & Wigston ELPS (2017); Charnwood ELR (2018); Northwest Leicestershire NELS (2020); Rugby ELS (2015); Coventry ELS (2015); Nuneaton and Bedworth HEDNA (2022); North Warwickshire Update to ELR (2017); Lichfield & Tamworth HEDNA Update (2020)

Commentary on Rail-Served Sites

4.3.33 **Table 4.8** assesses whether any of the local authority evidence or Local Plan documents make reference to strategic rail-served employment need. It is apparent from this review that there is limited mention of the important role rail-linked and rail-served sites can play in meeting the I&L sector's needs in term of improving supply chain costs and efficiency as well as reducing carbon associated with long haul HGV movements. While we appreciate many of the local authorities within the PMA do not have rail-linked sites, this does not mean I&L businesses located 'nearby' won't use a SRFI as part of their supply chain. We have considered 'nearby' to be a 20-mile truck-drive when defining the PMA for the HNRFI. This means all of the 12 below local authorities could theoretically have I&L businesses that may benefit from the HNRFI.

Table 4.8 References to Rail

Local Authority	References to Rail
Blaby	Reg 18 notes that Blaby will assess the employment implications of a SRFI close to J2 of the M69 (para 4.2.7, p.20)
Leicester	Draft Plan notes "The contribution made by rail and water will always be very limited in Leicester. No suitable sites exist within Leicester for strategic rail freight sites which are often 50 hectares or larger (units all over 9,000m2). However, pressure remains within the wider Leicester area for large scale B8 (distribution) which will generate significant freight movements" (para 16.45, p.183)
Hinckley & Bosworth	ELPS notes that HNRFI will focus on rail-related logistics, while Hinckley & Bosworth developments offer purely road-based warehousing; therefore likely not to compete with existing or proposed B2/B8 accommodation (para 10.9, p.141)
Oadby & Wigston	N/A
Charnwood	Draft Plan notes that Shepshed town is located within Leicestershire International Gateway which is focused around northern parts of A42 and M1, that includes East Midlands Airport and East Midlands Gateway (an SRFI) (para 3.160, p.115)
Harborough	Policy BE2 focuses on strategic B8 and Harborough's role in meeting long-term non-rail served strategic B8 development (allocating 700,000 sqm) in Leicester and Leicestershire (para 6.3.8, p.79)
North West Leicestershire	Reg 18 initial policy is to meet 50% of Leicester and Leicestershire's outstanding road-served requirement (106,000-150,000 sqm) as estimated in the HEDNA (2017) (para 6.31, p.44)
Rugby	ELS (2015) notes that it has focused on meeting, identifying and responding to local and sub-regional need. Rugby Council will need to continue to work with other local authorities to consider issues related to provision of rail-linked regional logistics sites (para 9.6, p.127).
Coventry	N/A
Nuneaton & Bedworth	N/A
North Warwickshire	Adopted Local Plan notes that "Large brownfield sites, such as Hams Hall, Birch Coppice, and Kingsbury Link, have been used for development, mainly B8 (storage and distribution uses) the former two sites also benefit from intermodal rail freight interchanges. The Borough is the location for many national and international companies including Aldi, TNT, 3M, BMW, Sainsbury

Local Authority	References to Rail
	and Subaru. In 2012 it also became home to one of Ocado's national hubs." (para 2.5, p.9). Furthermore, the Plan notes the important role that rail plays in the Borough, with a need to improve rail services and facilities in order to deliver growth (para 2.8, p.10).
Tamworth	N/A

Source: Savills (2020); Blaby New Local Plan Options (2021); City of Leicester Draft Plan for Consultation (2020); Hinckley & Bosworth Regulation 19 Consultation (2022); Oadby & Wigston New Local Plan – Issues and Options Regulation 18 Consultation (2021); Charnwood Pre-Submission Draft Local Plan (2021); Harborough Local Plan 2011-2031 (2019); North West Leicestershire Local Plan Review – Development Strategy and Policy Options (2022); Rugby Local Plan 2011-2031 (2019); Coventry City Council Local Plan (2017); Nuneaton & Bedworth Borough Plan Review Preferred Options (2022); North Warwickshire Local Plan (2021); Leicester & Leicestershire HEDNA (2017); Leicester ELS (2017); Hinckley & Bosworth ELPS (2020); Oadby & Wigston ELPS (2017); Charnwood ELR (2018); Northwest Leicestershire NELS (2020); Rugby ELS (2015); Coventry ELS (2015); Nuneaton and Bedworth HEDNA (2022); North Warwickshire Update to ELR (2017); Lichfield & Tamworth HEDNA Update (2020)

4.4 CONCLUSIONS

4.4.1 This section has reviewed the various local and regional employment reports commissioned within the PMA to estimate future I&L demand.

4.4.2 The GL Hearn and MDS Study, prepared for the Leicester and Leicestershire FEMA in 2021, assesses demand for strategic B8 floorspace (above 9,000 sqm / 100,000 sq.ft.). We consider the Study to present a number of methodological issues, the most concerning of which is that its preferred demand estimation is lower than the past completions trends. Other issues include:

- the use of different plot ratios for different demand models;
- the proportion of rail-served demand is too aspirational and unrealistic, unless more rail served sites such as HNRFI come forward; and
- air freight and LGV traffic are not taken into account.

4.4.3 In relation to the local evidence base covering 12 local authorities, multiple issues are identified making it difficult to compare their future I&L demand estimates:

- The evidence bases cover different time periods and segments of the I&L market;
- The evidence bases use a range of methodologies – past completions, labour demand, labour supply, and GVA outputs – which have a number of flaws and result in an underestimation of future I&L demand; and
- They adopt very long lookback periods that have no relationship to today's marketplace and use different adjustments to reach their final estimates.

4.4.4 Savills has developed a future demand methodology which addresses the fundamental flaws of the historic take up rate and labour demand methodology. The Savills methodology is outlined in **Chapter 7**. The methodology is compliant with the requirements of the Planning Practice Guidance ('PPG') as it:

- Analyses *'market signals, including trends in take up and the availability of logistics land and floorspace across the relevant market geographies'*[61]; and

- Applies *'economic forecasts to identify potential changes in demand and anticipated growth in sectors likely to occupy logistics facilities, or which require support from the sector.'*[62]

4.4.5 Based on the above, we consider the Savills model to represent industry best practice. It has been endorsed by the British Property Federation ('BPF') in our 'Levelling Up – The Logic of Logistics' report. The BPF Industrial Board, who commissioned the report, consist of many of the major investors and thought leaders in the I&L sector including St Modwen, The United Kingdom Warehousing Association, IM Properties, Newlands Developments, Segro, GLP, Tritax Symmetry and the BPF itself.

4.4.6 Facilitating growth in the I&L sector is also a key priority of the NPPF, namely:

- Paragraph 81 which states: *'Planning policies and decisions should help ……. **The approach taken should allow each area to build on its strengths, counter any weaknesses and address the challenges of the future**. This is particularly important where Britain can be a global leader in driving innovation, and in areas with **high levels of productivity**, which should be able to capitalise on their performance and potential.'*

- Paragraph 83 which states: '*Planning policies and decisions should recognise and address the specific locational requirements of different sectors. This includes making provision for clusters or networks of knowledge and data-driven, creative or high technology industries; and for **storage and distribution operations** at a variety of scales **and in suitably accessible locations**.'*

[61] In accordance with PPG, Paragraph: 031 Reference ID: 2a-031-20190722
[62] Ibid

Chapter 5 ◆ I&L Market Assessment

5.1 INTRODUCTION

5.1.1 Within this chapter we consider regional supply and demand factors for I&L floorspace within units above 100,000 sq.ft. Units above this size are considered to be large and will be the focus of the HNRFI development.

5.1.2 The aim of the analysis is to gauge the relevant market strength for larger I&L units within the PMA the Subject Site is located within. We defined the HNRFI PMA in **Chapter 2**. For contextual purposes we also make comparison against the national context. This comparison is essential in understanding the relative strength of the PMA for large I&L sheds.

5.1.3 This market assessment considers all I&L units above 100,000 sq.ft., meaning both industrial (Egii and B2) and logistics uses (B8). While the DCO application will only be for B8 logistics uses, most planning permissions for non-rail linked sites in the wider PMA and England are for flexible Egii, B2 and B8 use classes. This means a site that is currently occupied by an industrial user could revert to B8 or vice versa without planning permission. Segmenting the market assessment to only large B8 units would ignore this reality and would also ignore the wider quantum of I&L uses that may still use the HNRFI infrastructure as part of their wider supply chains.

5.1.4 Finally, the results and analysis from this chapter provide inputs into the Savills demand assessment in **Chapter 7**.

5.2 MARKET SUPPLY & DEMAND INDICATORS

Availability

5.2.1 The availability rate across 100,000+ sq.ft. properties in the PMA is extremely low at just 2.8%.

5.2.2 At the national level, 8% availability across all size bands is commonly referred to as the level where a market is broadly in balance (i.e. frictional capacity) in terms of supply and demand (as sourced in publications such as the GLA's Land for Industry and Transport SPG, 2012). Below this level available supply becomes tight and rents increase as strong occupier demand compete for limited available stock. This equilibrium rate varies across geographies and market segments, and it tends to be higher for smaller units and lower for larger units.

5.2.3 We have calculated the equilibrium availability rate for 100,000+ sq.ft. properties across the PMA and found it to be around 5.5%. To reach this conclusion we consider real rental growth (i.e. adjusted for inflation) over the past decade to find the point at which it was close to zero and/or transitioned from negative to positive rental growth. **Appendix A** presents this analysis, namely quarterly rental growth adjusted for inflation and the corresponding availability rate for each quarterly period. It shows the PMA market transitions from a sustained period of negative rental growth to a sustained period of

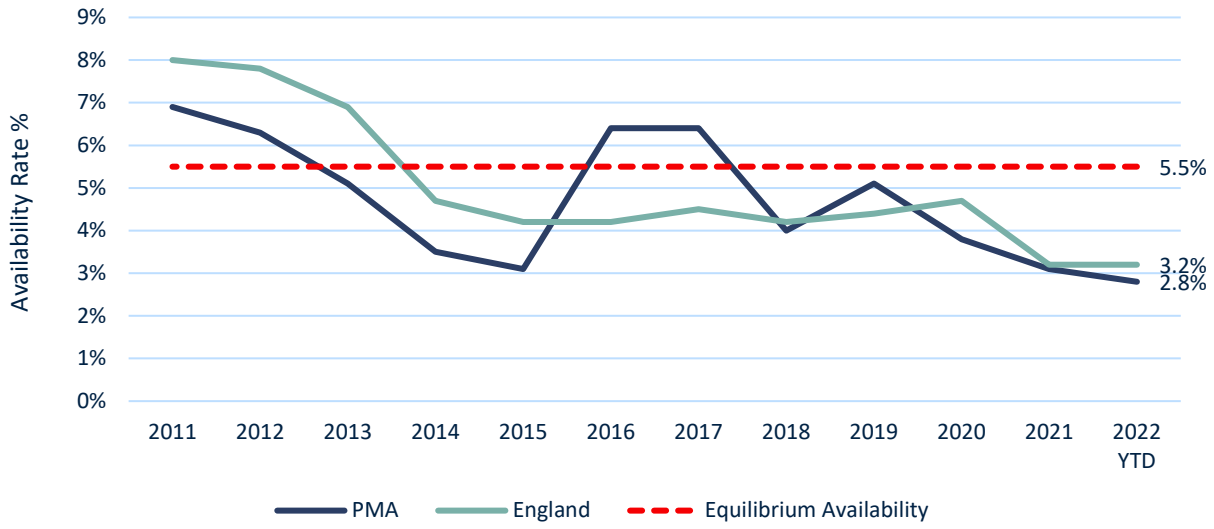
positive rental growth between 6.1% availability in 2013 Q3 and 5.1% in 2013 Q4. The broad middle ground between these two variables is 5.5%.

5.2.4 Establishing a PMA-specific availability rate is extremely important. Below this level a market is considered to be supply-constrained meaning there is not enough available supply to meet demand. As shown in **Figure 5.1**, availability across the PMA has been below the 5.5% equilibrium level for over 7 years during the last decade. This means that the PMA's I&L market has been supply-constrained for a considerable period of time which in turn suppresses demand as not all occupiers can find space to meet their needs. As a result they are either forced to remain in their existing premises, even if not ideal for their operational requirements, or alternatively have to leave the PMA to find suitable premises elsewhere, taking the jobs and investment they generate with them.

5.2.5 While the overall availability trend in the chart is of decline, the PMA market went briefly above the 5.5% equilibrium rate in 2016 and 2017. As we discuss further below, this was the result of a number of large I&L developments being built during this period. However they were quickly occupied returning the market to a supply-constrained level soon after. It should also be noted that one or two years of above equilibrium availability doesn't fully compensate for a sustained period of tight supply in the face of strong demand. The PMA is a case in point with availability being below equilibrium availability in 8 of the last 10 years. Current availability is just 2.8%, lower than the availability across England which is at 3.2%.

5.2.6 Such a sustained period of tight supply can have a number of wider implications. For example, new companies aren't able to move into a market area, nor are existing companies able to find new space if their floorspace needs change, for instance due to expansion. It may also happen that some existing local companies get priced out of the market as they can't afford the increasing rents. As a result, companies have to locate to areas that are not ideal in terms of serving their customer base, thereby increasing travel times and the costs of doing business, not to mention environmental impacts. The lack of supply may also mean companies are forced to occupy space that is not entirely suitable for their operational needs impacting productivity.

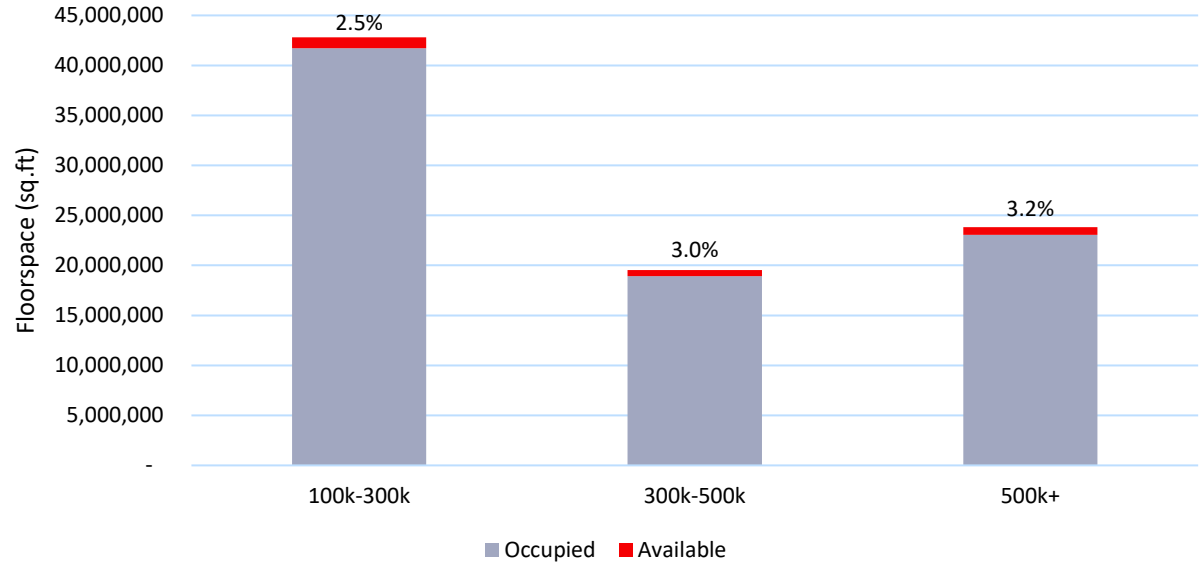
Figure 5.1 PMA's and England's Availability Rate since 2011 – 100k+ sq.ft



Source: Costar, Savills

5.2.7 With reference to **Figure 5.2**, it can be seen that all the large unit size bands suffer from very low levels of availability, well below the 5.5% equilibrium. This ranges from 2.5% for units between 100,000 to 300,000 sq.ft. and 3.2% for units above 500,000 sqft.

Figure 5.2 PMA Availability by Size Band (2022 YTD)



Source: Costar, Savills

5.2.8 Below we compare the distribution and availability of floorspace within the larger unit size bands across the PMA and England. In terms of floorspace, there is a slight underrepresentation in the PMA relative to England of units in the 100,000 to 300,000

sq.ft. size band. On the other hand there is a slight overrepresentation of units in the PMA of units between 300,000 to 500,000 sq.ft. and within the 500,000 sq.ft. plus size bands. In terms of availability, this is low across all size bands above 100,000 sq.ft, both within the PMA and England wide. All are well below the 5.5% equilibrium rate evidenced in **Appendix A**. What this analysis tells us is that all size bands above 100,000 sq.ft. are in tight supply, indicating a range of large units sizes should be delivered at HNRFI.

5.2.9 As detailed in **Chapter 1**, this is what is being provided at HNRFI with units ranging in size from 285,000 sq.ft. to over 1.4 million sq.ft.

Table 5.1 100k+ sq.ft. Market – PMA vs England

	Floorspace %		Availability %	
	PMA	**England**	**PMA**	**England**
100k-300k	50%	55%	2.5%	3.8%
300k-500k	23%	19%	3.0%	3.5%
500k+	28%	25%	3.2%	1.8%

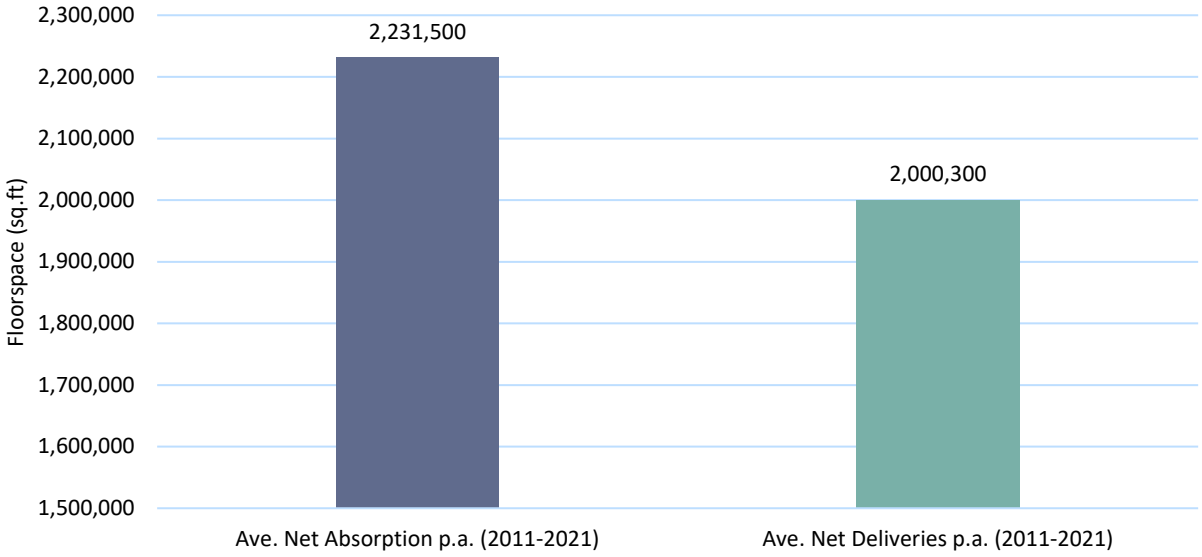
Source: Costar, Savills

Demand vs Supply

5.2.10 Over the last decade net absorption has averaged 2.2 million sq.ft. per annum (p.a.), while net deliveries of stock have averaged 2 million sq.ft. p.a. since 2011 across the PMA – shown in **Figure 5.3**. Net absorption is a leading measure of demand based on lease deals. It compares occupied space (move-ins) versus vacated space (move-outs). On the other hand net deliveries is a measure of supply and registers the change in inventory (floorspace).

5.2.11 Net deliveries being lower than net absorption within the PMA indicates that supply has not kept pace with demand over the last decade. This is a key reason why the PMA's availability rate has remained low historically.

Figure 5.3 PMA Average Net Absorption and Net Deliveries p.a. - 100k+ sq.ft, 2011-2021



Source: Costar, Savills

5.2.12 The above net absorption figures are arguably conservative. Savills records indicates the 5 year leasing demand trend (gross) has been strong, as outlined in **Table 5.2** below, at an average of 4.7 million sq.ft. p.a. This is more than twice the 10-year trend of 2.2 million sq.ft. p.a. While this is a gross figure (i.e. it doesn't account for floorspaces losses which the 10-year figure does), it still indicates recent demand has been even stronger. This is because most of the new development relates to Greenfield land and hasn't required the demolition of existing I&L floorspace. Therefore we consider net figures relating to the 5 year trend wouldn't be that much lower than the gross figures.

Table 5.2 PMA Gross Take-up (H2 2017 - H1 2022)

Year	Gross Absorption (sq.ft)	Number of Transactions
H2 2017 - H1 2018	2,978,063	14
H2 2018 - H1 2019	3,234,117	12
H2 2019 - H1 2020	4,981,865	15
H2 2020 - H1 2021	5,279,123	18
H2 2021 - H1 2022	7,255,787	28
Five year total	**23,728,955**	
Five year average per annum (2017 - 2022)	**4,745,791**	

Source: Costar, Savills

5.2.13 Notable deals within the PMA over the course of the last 12 months include[63]:

- Amazon has taken a speculative unit of 746,778 sq. ft at Magna Park South, Lutterworth (July 2021);
- Iron Mountain has taken two speculative units at Magna Park North totalling 800,000 sq.ft in separate transactions in November 2021 and March 2022;
- Maersk agreed a pre-let of Panattoni's Tamworth 345 speculative unit of 345,414 sq. ft in January 2022;
- CEVA Logistics agreed a pre-let of the speculative unit DC9 (330,770 sq. ft) at Prologis Park Ryton (Coventry) in May 2022;
- Iron Mountain has taken 995,952 sq. ft at Symmetry Park, Rugby across four build to suit units (June 2022)

Demand as a Proportion of Inventory

5.2.14 We have also expressed net absorption as a proportion of inventory. This is an important measure as it shows comparatively how strong demand is relative to the size of a market's inventory and therefore allows comparisons to be made as to the strength of demand between different market geographies. In this regard, average net absorption as a proportion of inventory in the PMA is 2.6%, far higher than the national average at 1.5% . A similar pattern is observed for average net deliveries, which represent 2.3% of inventory in the PMA and 1.3% nationally. This again underlines the relative strength and national significance of the PMA's I&L market given it attracts more demand and more investment in new build I&L stock.

Table 5.3 Average net absorption and deliveries as a proportion (%) of inventory

	PMA	England
Ave. Net Absorption p.a. (2011-2021)	2.6%	1.5%
Ave. Net Deliveries p.a. (2011-2021)	2.3%	1.3%

Source: Costar, Savills

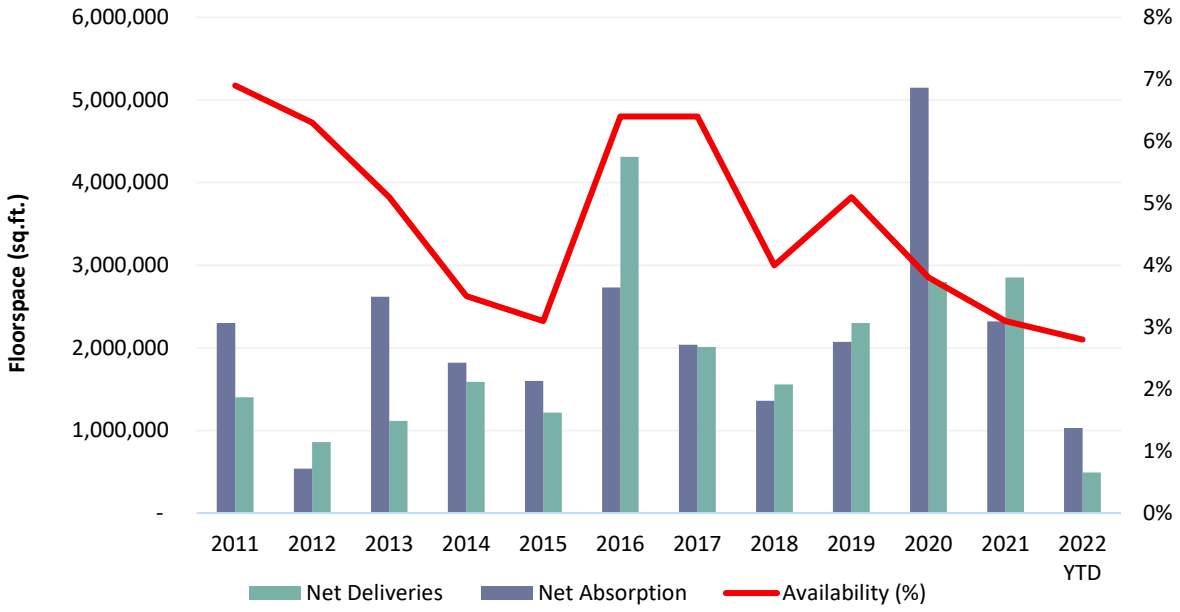
5.2.15 **Figure 5.4** shows net absorption and net deliveries on an annual basis since 2011 across the PMA. It clearly shows that delivery of new I&L floorspace has failed to match demand in most years. 2020 was a particularly strong year for demand with net absorption for units above 100,000 sq.ft. nearly twice (1.8x) the level of net deliveries.

5.2.16 The chart also shows that availability momentarily increased above the 5.5% equilibrium level in 2016 and 2017. This was due to a significant level of new 100,000 + sqft unit supply being brought to the market in 2016 at over 4.3 million sq.ft. of net floorspace. The new

[63] Please note that this is not an exhaustive list.

floorspace being delivered included – among others - the over 1 million sq.ft. Amazon facility on Beveridge Lane in Bardon Hill, the 781,000 sq.ft. Euro Car Parts facility in Tamworth and over 690,000 sq.ft. at Prologis Park Ryton. Demand too was strong in 2016 at 2.7 million sq.ft., which is above the average (2.2 million sq.ft.) over the last decade. This large quantum of new supply was quickly occupied with the PMA returning to a supply-constrained state from 2017/2018 where it has remained ever since.

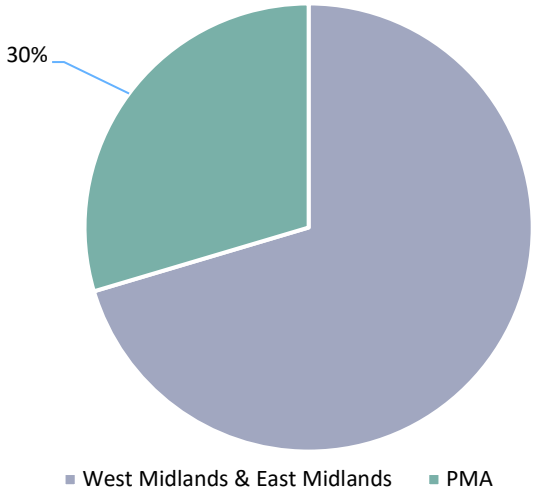
Figure 5.4 PMA Net Absorption and Net Deliveries p.a. vs Availability Rate since 2011 - 100k+ sq.ft



Source: Costar, Savills

5.2.17 Another key point to note is how important the PMA is to the wider regions I&L market. The PMA's high level of net absorption represents nearly a third (30%) of all leasing demand across the combined West Midlands and East Midlands regions.

Figure 5.5 PMA's Share of Demand across the West Midlands and East Midlands (2011-2021)



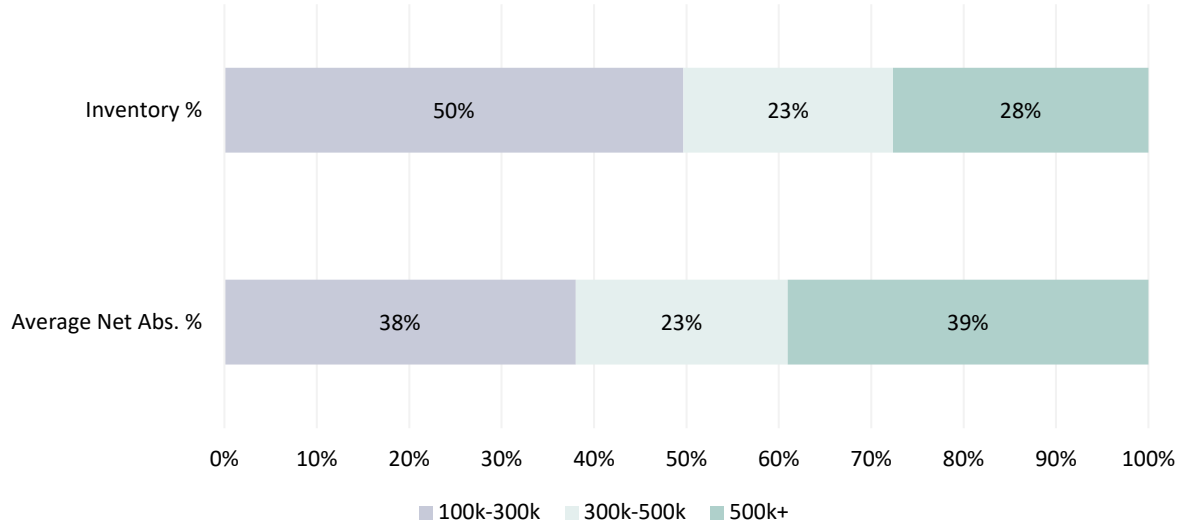
Source: Costar, Savills

Demand by Size Band

5.2.18 In **Figure 5.6** we assessed the share of average net absorption accounted for by each of the larger size bands. It shows that the 500,000+ sq.ft. and the 100,000 to 300,000 sq.ft. size bands are driving demand for floorspace across the PMA – respectively accounting for 39% and 38% of average net absorption over the last decade. Interestingly, properties in the largest size band account for only 28% of total existing inventory but account for a much higher share of demand (39%) over the last decade. This indicates that demand for this largest size band is growing above historic levels across the PMA. On the other hand, demand in the 100,000 to 300,000 size band is under-represented (38%) relative to its size (50%).

5.2.19 The size of the units within the proposed HNRFI feeds this demand profile, with 6 of the 9 proposed units being larger than 500,000 sq.ft., 2 units being between 100,000 and 300,000 sq.ft. and 1 unit sized between 300,000 and 500,000 sq.ft.

Figure 5.6 PMA Inventory and Average Net Absorption Share by Size Band (2011-2021) - 100k+ sq.ft.



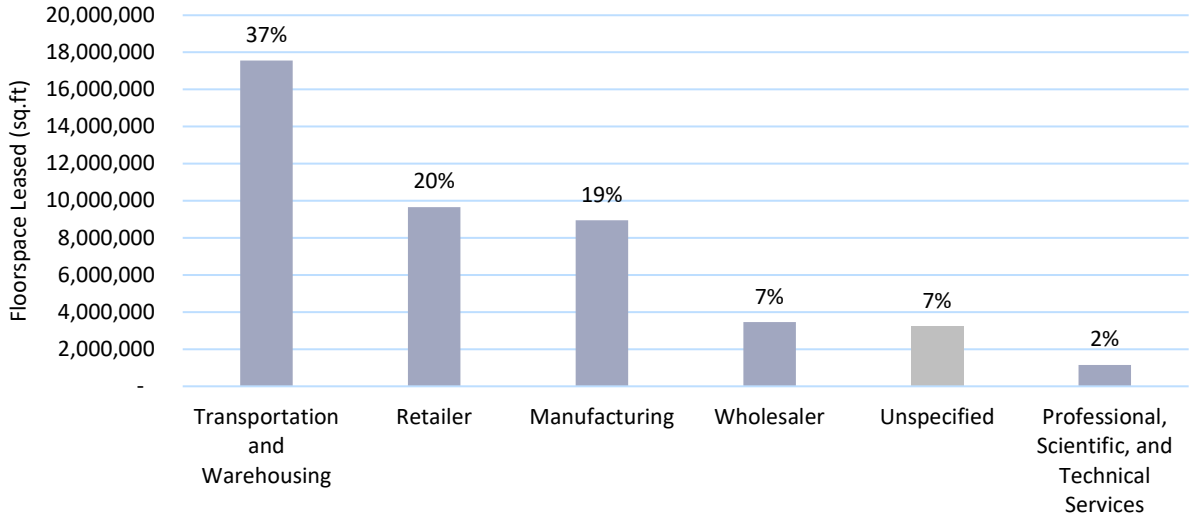
Source: CoStar, Savills

Demand by Sector

5.2.20 To better understand the nature of demand across the PMA over the last decade, we look at lease transactions by sector since 2011 in properties sized 100,000 sq.ft. and above. This analysis is illustrated in **Figure 5.7.** The chart shows that the Transport & Warehousing sector contributed over a third of floorspace leased (37%), followed by Retail (20%) and Manufacturing (19%).

5.2.21 The sectors which are typically linked to e-commerce are Retail, Transport & Warehousing and Wholesale. Across the PMA these sectors account for 64% of leasing demand, suggesting that e-commerce is a strong driving force for demand across the PMA. As we discussed in **Section 3.3,** the increase in e-commerce is one of the main growth drivers for the I&L sector. Not only is the UK continuing to build more homes, each individual home is spending more online. The increasing need for I&L floorspace is a by-product of this trend as is the growth in freight flows given more freight, both in terms of weight (tonnage) and value, is moved in, out and within the country. Again as we discussed in **Chapter 3,** these freight flows break down without the I&L premises themselves given their critical role in storage, sorting and distribution of goods throughout the country.

Figure 5.7 PMA Leased Floorspace by Sector (2011-2021) - 100k+ sq.ft



Source: Costar, Savills

5.2.22 The significant share of leased floorspace from the manufacturing sector (19%) is a symptom of a healthy and diverse economic base across the PMA. It is a positive signal for the proposed HNRFI as this means that the rail terminal can link into various types of downstream users, rather than rely on one type of occupier base. While manufacturers primary function is to produce goods, they too play an important role in the distribution & storage sector – requiring on-sire and/or off-site storage solutions - and can themselves be users of rail freight interchanges.

5.2.23 The proposed HNRFI is indeed expected to benefit the wider I&L market across the PMA – not just the large scale B8 users located on the Subject Site, especially once incoming freight is broken down in smaller loads and is transported by road. A study[64] of the operations of DIRFT I and II analysed the destination of outbound lorries leaving the rail terminal. It found that 73% of all outbound lorries were destined to locations outside the DIRFT estate.

5.2.24 22% (19 million sq.ft.) of the I&L units within the PMA are above 100,000+ sq.ft. A further 59 million sq.ft. of I&L floorspace in the PMA are smaller units below 100,000 sq.ft. that could also utilise the proposed HNRFI as part of their supply chains.

Rental Growth

5.2.25 Finally, another key market indicator for understanding the relationship between supply and demand is rental growth. When demand outstrips supply, rental growth is typically higher as occupiers compete for limited available stock. This in turn drives ups rents. Conversely, when there is sufficient supply to accommodate demand rental growth is

[64] Nathaniel Lichfield & Associates (2012), DIRFT III: Planning For The Future – The Expansion Of Daventry International Rail Freight Interchange – cited in Roxhill (2019), Document 6.8 – Market Analysis Report – Northampton Gateway Strategic Rail Freight Interchange

lower, typically tracking inflation more closely.

5.2.26 Rents across the PMA have grown by 66% between 2011 and 2021, more than twice the rate of inflation over the same period at 25%[65], and higher than the national rate of 61%. As seen in **Table 5.4** rental growth has been much stronger in the second half of the decade, with an average year-on-year (YoY) rate of 7% vs only 3% in the first half of the decade. This further evidences that the PMA's I&L market has become increasingly supply-constrained in recent times, a situation that will only worsen further given the strength of the sector.

Table 5.4 PMA Annual Rental Growth - 100k+ sq.ft

Period	Market Rent	Year-on-Year Nominal Growth	Average YoY
2021	£7.30	8%	2016 to 2021 = 7%
2020	£6.74	5%	
2019	£6.40	6%	
2018	£6.02	8%	
2017	£5.60	7%	
2016	£5.25	6%	2011 to 2016 = 3%
2015	£4.93	6%	
2014	£4.65	3%	
2013	£4.53	1%	
2012	£4.47	2%	
2011	£4.40	0%	

Source: Costar, Savills

5.3 CONCLUSION

5.3.1 The above market assessment has demonstrated the PMA has extremely low availability in units above 100,000 sq.ft. This is not a recent experience but has been the case for much of the last decade with availability repeated below the 5.5% equilibrium rate. New supply has also lagged demand over the last decade which has maintained downward pressure on availability. As a result of this supply/demand imbalance, I&L rental growth within the PMA for large units has more than doubled the rate of inflation. Such high rental growth is symptomatic of strong occupier demand - which is nearly twice as strong as the national average at 2.6% p.a versus 1.5% p.a - competing with one another for limited available stock. This competition has pushed up rents.

5.3.2 While supply has struggled to match demand, the delivery of new stock has still been far stronger in the PMA compared to the national picture - 2.3% p.a versus 1.3% p.a of existing inventory. This underlines the national significance of the PMA for attracting I&L investment.

[65] According to the Bank of England inflation calculator between 2011 and 2021

Chapter 6 ◆ Savills Review of Supply

6.1 INTRODUCTION

6.1.1 The purpose of this chapter is to estimate the current and future supply of buildings and land within the HNRFI PMA that are suitable for large B8 units greater than 100,000 sq.ft. (9,290 sq.m). We consider three sources of supply including:

- Supply of buildings inclusive of new and second-hand units, as well as speculative units under construction that are 100,000 sq.ft. (9,290 sq. m) or greater;
- Land supply which benefits from planning permission and are capable of delivering at least one B8 unit of 100,000 sq.ft. (9,290 sq. m) or greater; and
- Pipeline supply of sites that benefit from either an allocation or draft allocation and can accommodate at least one B8 unit of 100,000 sq.ft. (9,290 sq. m) or greater. Our review has included sites of 2.5 ha and above in order to take a comprehensive approach, albeit the capacity of sites at the smaller end of the spectrum to accommodate strategic B8 uses may well be limited in practice.

6.1.2 Based on this analysis we consider the PMA to have **26,727,166 sq. ft. (2,483,035 sq.m.)** of floorspace, equal to 709 ha of land supply. We compare this level of available supply with estimated demand in **Chapter 7.** Our supply analysis was undertaken in July 2022.

6.2 SUPPLY OF BUILDINGS

6.2.1 We have reviewed the supply of units of 100,000 sq.ft. (9,290 sq.m) plus within the PMA that could accommodate at least one B8 occupier (i.e. that use is permitted under the relevant planning permission, or the principle of use is established). Our assessment takes into account the supply of new and second-hand units, as well as speculative units under construction.

6.2.2 There is a total of 13 buildings available in the PMA, providing 3,316,102 sq.ft. (308,076 sq.m) of floorspace. Details are set out below at **Table 6.1**, and a plan is included at **Appendix B**.

Table 6.1 PMA Building Supply

Ref.	Unit	Location	Size sq.ft. (sq.m)	Comments/Use
1	Apollo 2, Ansty	J2, M6	172,642 (16,039)	Speculative unit B2/B8 unit available Q4 2022.
2	Leicestershire Distribution Park	J21/21a, M1	149,995 (13,935)	Speculative unit (Eg(i)/B2/B8).
3	Unit 1 Griffen Park, Desford	Desford (M1/M69)	126,626 (11,764)	Speculative under construction
4	Bardon Hill (Units 5/6)	J22, M1	118,327 (10,993)	Speculative unit under construction. **Under offer**, PC August. B2/B8

Ref.	Unit	Location	Size sq.ft. (sq.m)	Comments/Use
5	MPS5, Magna Park South	M1/M69/M6	186,775 (17,352)	Speculative unit, under construction. PC Sept/Oct 2022.
6	MPS6, Magna Park South	M1/M69/M6	211,521 (19,651)	Speculative unit, under construction. September 2022 PC.
7	MPS7, Magna Park South	M1/M69/M6	256,385 (23,819)	Speculative unit, under construction.
8	Unit 1 Coventry Logistics Park	J2, M6	484,720 (45,032)	Speculative unit under construction. B8 - **under offer**, PC September
9	Unit 2 Coventry Logistics Park	J2, M6	251,488 (23,364)	Speculative unit under construction. B8 - **under offer**, PC September
10	Unit 1 Mercia Park	J11, M42	214,987 (19,973)	Speculative unit due for completion PC July 2022.
11	Unit 5 Mercia Park	J11, M42	314,984 (29,263)	Speculative unit due for completion PC July 2022,
12	DC10, Prologis Park, Coventry	J3, M6	166,302 (15,450)	Secondhand unit. Grade B.
13	Rugby 661, Central Park, Rugby	J1, M6	661,345 (61,441)	Secondhand Grade B unit on 14.1 ha plot
	Total		**3,316,102 (308,076)**	

Source: Savills (July 2022)

6.2.3 The vast majority of floorspace is within speculative units which have either recently been completed or are still under construction (11 out of 13 units) as developers react to the very strong demand and lack of supply within the PMA. Three of the units which are under construction are under offer to occupiers, with contracts due to complete on Practical Completion of the units (Bardon Hill and both units at Coventry Logistics Park). Whilst these deals cannot complete as yet, these units are therefore not truly making a contribution to the supply. **Excluding these units gives a supply of 2,461,566 sq.ft. (228,687 sq.m) across 10 units**.

6.2.4 The average size of units available is 255,083 sq.ft. (23,698 sq. m), falling slightly to 246,159 sq.ft. (22,869 sq.m) excluding the three units which are under offer. The largest new Grade A unit which is available (not under offer) is Unit 5 Mercia Park at 314,984 sq.ft. (29,263 sq. m).

6.2.5 The supply of immediately available land which is serviced and with planning permission and can therefore accommodate an occupier requirement by way of a 'build-to-suit' solution is therefore of vital importance and is considered below.

6.3 LAND SUPPLY

6.3.1 We have analysed the supply of sites within the PMA which benefit from planning permission and are capable of delivering at least one B8 unit of 100,000 sq.ft. (9,290 sq. m) or more. In the case of sites where there are certain limited plots which can accommodate this scale of unit, we have set out the floorspace capacity only of these

elements. The same approach has been taken where sites are subject to planning use restrictions and can therefore only accommodate a limited element of B8 development.

6.3.2 A schedule of available sites, including remaining floorspace capacity and maximum size of unit which can be accommodated, together with location plan, is provided at **Appendix C**.

6.3.3 There are 13 sites available within the PMA for B8 use, with a total capacity of **18,318,033 sq.ft. (1,701,801 sq. m)** (there are three further sites available where a large unit can be accommodated but use is restricted to industrial and manufacturing uses).

6.3.4 Supply is focused in three significant strategic schemes which between them account for 61% of the floorspace capacity in the PMA:

- DIRFT III – 5,285,844 sq.ft. (491,071 sq.m)
- Coventry Gateway – 3,399,996 sq.ft. (315,870 sq.m)
- Magna Park – 2,725,443 sq.ft. (253,202 sq.m)

6.3.5 As a consequence, the level of choice available to occupiers is less than the overall quantitative supply position would suggest. Notably, DIRFT III is the only available rail-linked scheme within the PMA.

6.3.6 There is also serious occupier interest in a number of the sites, including Faultlands, Nuneaton (1,000,010 sq.ft. (92,904 sq. m)) which is under offer in its entirety to a single occupier with construction of units underway and contract completion due on Practical Completion.

6.4 PIPELINE SUPPLY

6.4.1 We have also assessed the 'pipeline' supply of sites that benefit from either an allocation or draft allocation and can accommodate at least one B8 unit of 100,000 sq.ft. (9,290 sq. m) or more. Our review has included sites of 2.5 ha and above in order to take a comprehensive approach, albeit the capacity of sites at the smaller end of the spectrum to accommodate strategic B8 uses may well be limited in practice.

6.4.2 These sites are subject to varying degrees of risk around delivery and timescales. Our assessment does not include speculative developer promotions as it would not be appropriate to take these into account within the supply prior to a successful planning promotion or permission being obtained, given the level of risk attached.

6.4.3 In most cases, the floorspace capacity of these sites is yet to be determined and we have therefore assumed a 35% floorspace ratio to gross site area as evidenced in **Table 6.3** below.

6.4.4 A schedule of sites and location plan is included at **Appendix D**.

6.4.5 There are 10 sites in the pipeline which can accommodate a B8 unit of 100,000 sq.ft.

(9,290 sq.m) or greater:

1. *Land West of St Johns (Enderby Logistics Hub)* – this 33 ha site is allocated in the Blaby District Plan, an application for **1,147,088 sq.ft. (106,568 sq.m)** of logistics floorspace with a developable area of 23.1 ha has been submitted and is awaiting determination;

2. *Prologis Park, Coventry* – 5.3 ha of land allocated in the Nuneaton & Bedworth Local Plan for an extension to the Park. A planning application has been submitted for **269,097 sq.ft. (25,000 sq. m)** of floorspace.

3. *Coventry Road, Nuneaton* – 9.0 ha allocated for E(g)/B2/B8 uses in the Nuneaton & Bedworth Local Plan. Savills are advising on this scheme and pre-application discussions are underway. Indicative schemes show capacity of **238,302 sq.ft. (22,139 sq.m)** but with the vast majority of floorspace in units of 10,763 sq.ft. (1,000 sq.m) and below. There is capacity for one unit of 100,000 sq.ft. (9,290 sq.m) on the site due to its configuration.

4. *Bowling Green Lane, Nuneaton* – located adjacent to Junction 3 of the M6, 26 ha is allocated within the Nuneaton & Bedworth Local Plan but this is reduced to **19 ha** within the emerging plan, with the remainder now being promoted for residential use.

5. *Land at Baginton Fields, Coventry* – located to the south of Coventry, adjacent to Jaguar Land Rover's Whitley HQ and to the north of SEGRO's Whitley South development to the south of Coventry - this site extends to **25 ha** and is allocated in the Coventry Local Plan for B2/B8 use. This site is in multiple ownerships and will require land assembly prior to planning promotion.

6. *Money Hill, Ashby-de-la-Zouch* – two plots totalling **16 ha** are allocated for E(g)/B2/B8 use in the North West Leicestershire Local Plan to the north of Asbhy-de-la-Zouch, adjacent to the A42 at Junction 13. The employment land is allocated as part of a larger, residential-led mixed use development.

7. *Land West of Birch Coppice, Dordon* – a site of **5.1 ha** allocated in the North Warwickshire Local Plan for E(g)/B2/B8. The development of this site requires the relocation of allotments.

8. *Western Park Golf Course, Leicester* – this former golf course, owned by Leicester City Council extends to **20.5 ha** and has a draft allocation for E(g)/B2/B8 use as part of strategic residential led/mixed use proposal. The Council consider its capacity to be **753,473 sq.ft. (70,000 sq. m)**.

9. *Beaumont Leys Park, Leicester* – draft allocation for 8.8ha with a stated capacity for **269,097 sq.ft. (25,000 sq. m)** of E(g)/B2/B8 floorspace, located within an existing industrial area.

10. *Thurcaston Road, Leicester* – a site of **2.7 ha** which has a draft allocation for E(g)/B2/B8 in the emerging Leicester Local Plan. Given the site's scale, it could

potentially accommodate a single large unit.

6.4.6 These sites have an estimated floorspace capacity of 5,093,030 sq.ft. (473,158 sq. m), of which 3,968,739 sq.ft. (368,708 sq. m) benefits from an adopted allocation.

6.4.7 This is an extremely low level of pipeline supply in the context of the rates of take up within the PMA. There is a severe lack of sites in the pipeline, with the majority of sites which have been allocated in the last round of Local Plan reviews now being delivered at a rapid pace.

6.4.8 Furthermore, there is a particular shortage of strategic scale sites in the pipeline which are an essential component of supply, being able to accommodate the largest occupier requirements, offering a range of configurations and providing continuity of supply, as well as enabling occupiers to expand and grow. The only sites that could be considered strategic in scale are Enderby Logistics Hub at 1,147,088 sq.ft. (106,568 sq.m) and Land at Baginton Fields at Whitley, being 25 ha. Even these sites are relatively small scale given the scale of occupier requirements being seen in the market (for example, Iron Mountain's recently agreed 10,716,032 sq.ft. (995,552 sq.m) campus at Symmetry Park, Rugby).

6.4.9 The speed at which strategic sites are being taken up is further illustrated by a review of take-up at key schemes nearby to the Subject Site:

East Midlands Gateway (just outside of PMA)

- A timeline of 10 years was originally envisaged for completion of the scheme but after just over 4 years there is now no land remaining which is capable of accommodating a unit in excess of 96,000 sq.ft (9,000 sq. m). Take up at the scheme has been far quicker than envisaged and has averaged c. 1.5 million sq.ft (139,355 sq.m) per annum since serviced plots became available, with every occupier reportedly utilising the rail freight terminal (as at June 2022).

Magna Park (within PMA)

- Take up across Magna Park North and South has averaged 1,243,000 sq. ft (115,467 sq.m) per annum since 2018, increasing to 2,637,000 sq.ft (244,993 sq.m) per annum on average over 2020 and 2021. If this rate of take up continues then the remaining capacity of c.3,810,000 sq.ft (354,000 sq. m) could be exhausted in less than 18 months, considerably less time than envisaged when the planning permission was granted for these schemes.

6.4.10 There are further sites being promoted which do not benefit from any formal planning status which could supplement this pipeline in due course but are far from certain at this time. This includes a potential extension to DIRFT identified within the West Northamptonshire Spatial Options consultation.

6.5 SUPPLY ASSESSMENT SUMMARY

6.5.1 There is 26,727,166 sq.ft. (2,483,035 sq.m) of comparable supply within the PMA. A summary of the supply position within the PMA is set out at **Table 6.2** below:

Table 6.2 PMA Supply Summary

PMA Supply Summary	Strategic B8 sq.ft. (sq.m)
Building Supply	3,316,102 (308,076)
Available Land Supply (sites with PP)	18,318,033 (1,701,801)
Pipeline anticipated capacity	5,093,030 (473,158)
Total	**26,727,166 (2,483,035)**

6.5.2 This level of supply in floorspace terms equates to 709 ha based on a 35% plot ratio. We consider this to be an appropriate plot ratio for schemes consisting of larger units of 100,000 sq. ft. (9,290 sq. m) and above. Some relevant case studies to evidence this plot ratio as being appropriate, both within the PMA and elsewhere, are detailed in **Table 6.3** below**.**

Table 6.3 Plot Ratio Case Studies

Local Authority	Site Name	Plot Ratio (%)
Blaby	Optimus Point Plot 80	31%
Bristol	Ocado, St Modwen Park, Avonmouth	36%
Buckinghamshire	Symmetry Park Aston Clinton	31%
Central Bedfordshire	Symmetry Park Biggleswade	30%
Charnwood	Unit 2, Rowena Park - Rothley	33%
Harborough	Symmetry Park, Lutterworth opt.1	29%
Mid Sussex	GAL at St Modwen Park Gatwick	34%
Newport	Amazon, St Modwen Park, Newport	26%
North Kesteven	St Modwen Park, Lincoln	32%
North Northamptonshire	West End, Raunds, Northamptonshire	29%
North Warwickshire	St Modwen Park, Tamworth	26%
North Warwickshire	Land North East of Sewage Works, Atherstone	36%
North Warwickshire	BIFT - Plot 7, Birch Coppice Business Park	34%
Oadby and Wigston	Wigston Industrial Estate	34%
Swindon	Symmetry Park Swindon	30%
Uttlesford	Land north of Taylor's Farm, Takeley Street	29%
Warrington	Mountpark Warrington Omega II	36%
Warrington	The Quadrant South	34%
West Leicestershire	Mountpark Bardon 2	35%
		Average plot ratio = 32%

Source: Savills

Chapter 7 ◆ Savills Future Demand Estimates

7.1 INTRODUCTION

7.1.1 The purpose of this chapter is to estimate future demand within the HNRFI PMA for large B8 units greater than 100,000 sq.ft.

7.1.2 Based on the Savills demand methodology, over a 20-year plan period, we estimate future demand within the PMA for large B8 units to be 1,772 ha. This means demand is 150% (2.5 times) higher than the 709 ha of available supply presented in **Chapter 6**.

7.1.3 This clearly supports the conclusions from the market assessment in **Chapter 5** that the PMA market is severely supply-constrained and therefore needs more quality strategic sites to help meet the strong demand. The 226 ha HNRFI will help to address the **1,063 ha shortfall in supply**.

7.2 SAVILLS ESTIMATE OF FUTURE I&L DEMAND

7.2.1 We present below Savills full methodology for estimating future I&L demand. Our methodology is considered to address the issues we raised against the various employment land studies discussed in **Chapter 4**. Our methodology is NPPG–compliant as it builds upon historic demand (net absorption), adjusting past trends for historic supply shortages and the subsequent loss in demand. We refer to this as 'suppressed demand' which is added to the historic demand trend as a top-up. We also factor in future e-commerce growth which is a key growth driver for the sector.

7.2.2 Our overarching approach to demand estimation first considers the full market for I&L units above 100,000 sq.ft. (i.e. light industrial, industrial and logistics so not just B8 uses). This is considered a more robust approach as it relies on a larger pool of data and is based on the fact that industrial and logistics occupiers desire similar types of premises in terms of location and design.

7.2.3 After running our model at this level, it is then possible to segment what proportion of overall I&L demand relates specially to just B8 logistics uses which are the focus of the HNRFI.

Step 1: Estimating demand over the Local Plan period

7.2.4 From our review in **Chapter 4**, it emerged that most local authorities in the PMA have a planning period of circa 15 to 25 years and that the GL Hearn study for Leicester and Leicestershire adopted a 21-year period. Here we assume a 20-year plan period which is broadly consistent with the regional and local employment evidence.

Step 2: Estimation of historic demand

7.2.5 This is based on the average annualised net absorption for the PMA (from **Chapter 5**) at 2.2 million sq.ft. per annum between 2011 and 2021. Savills considers net-absorption to be the leading measure of demand for floorspace as it indicates the quantum of net

floorspace occupied over a period of time (i.e. move-ins minus move-outs) based on leasing deals.

7.2.6 As discussed in **paragraph 5.2.12**, our use of the 10-year demand trend for large units from Costar is arguably conservative. Savill's records indicate the 5 year demand trend for large units above 100,000 sq.ft. to be much higher than the Costar 10-year trend at 4.8 million sqft from 2017 to 2022 YTD. While this is a gross figure (i.e. it doesn't account for floorspaces losses which the 10-year figure does), it still indicates recent demand has been even stronger. This is because most of the new development relates to Greenfield land and hasn't required the demolition of existing I&L floorspace. Therefore we consider net figures wouldn't be that much lower than the gross figures.

Step 3: Estimation of suppressed demand

7.2.7 The rationale for accounting for suppressed demand is that when sufficient supply isn't available, demand cannot be accommodated. This is the top-up figure to be added to the historic demand (net absorption) trend to account for years when the market was supply-constrained.

7.2.8 Supply and demand are inextricably linked across all commercial property sectors. Put simply if demand exceeds supply rents typically rise more quickly as occupiers compete for limited available stock. This can have a number of wider implications. For example, new companies aren't able to move into a market area, nor are existing companies able to find new space if their floorspace needs change, for instance due to expansion. It may also happen that some existing local companies get priced out of the market as they can't afford the increasing rents. As a result, companies have to locate to areas that are not ideal in terms of serving their customer base, thereby increasing travel times and the costs of doing business, not to mention environmental impacts. The lack of supply may also mean companies are forced to occupy space that is not entirely suitable for their operational needs impacting productivity.

7.2.9 We describe a market where supply doesn't keep up with demand as being 'supply-constrained'. Limited supply in a strongly performing market, such as the PMA's I&L sector, means that demand cannot be fully satisfied, typically resulting in strong rental growth. As demonstrated in **Chapter 5**, the PMA's I&L rents for large units have increased by 66% since 2011, indicating new supply has struggled historically to keep pace with the strong demand. This is more than double the rate of inflation over the same period[66].

7.2.10 At the national level, the market equilibrium level where supply and demand are broadly in balance and rents are more stable, is around 8% availability. This benchmark rate is found in a number of prominent publications such as the GLA's Land for Industry and Transport Supplementary Planning Guidance (SPG).

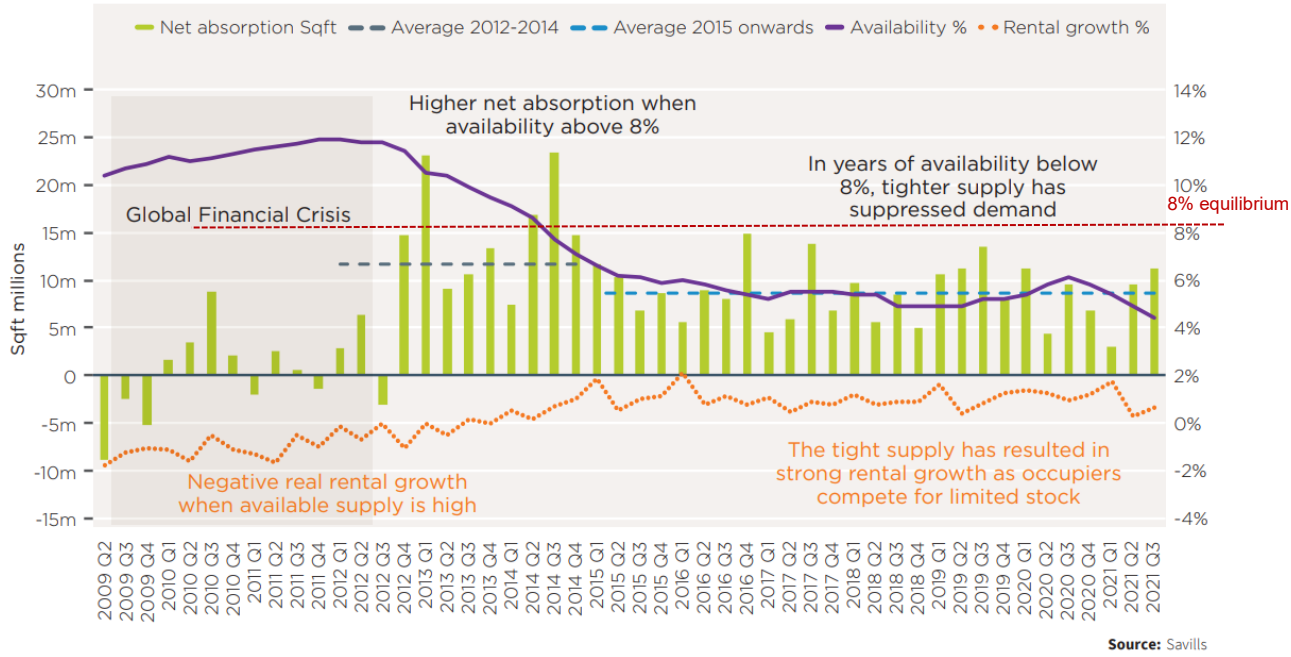
7.2.11 If one studies real rental growth (i.e. rental growth adjusted for inflation) over the past decade at the national level and observes its relationship to availability, it becomes clear that I&L rents begin to grow strongly when availability is below 8%. This relationship is clearly illustrated in **Figure 7.1** below. When availability was above 8% between 2009 and

[66] According to the Bank of England inflation calculator between 2011 and 2021

2014 real rental growth (net of inflation) was either negative or only slightly positive. This enabled demand to be accommodated as sufficient supply was available.

7.2.12 However since 2014, as availability dipped below 8% and has stayed below this level ever since at the national level, real rents have grown strongly year-on-year. During this period average net absorption has been lower than the 2009-2014 period despite the I&L sector going from strength to strength. This clearly shows the suppressing nature tight availability (below 8%) has had on I&L demand nationally.

Figure 7.1 Historic Net Absorption (Sq.ft.), Availability (%) and Real Rental Growth (%) in England



Source: CoStar, OBR, Savills

7.2.13 The availability equilibrium rate can varies across market segments and geographies. As discussed in **Chapter 5**,, we found that for the 100,000+ sq.ft. market across the PMA, the equilibrium availability rate is 5.5%. This was established by looking at real rental changes (i.e. rental growth less inflation). In **Appendix A** we report the quarterly rental change for the PMA and the availability rate in each quarter over the last decade. The data presented shows that the transition between negative rental growth and sustained positive rental growth is around 5.5% availability.

7.2.14 The individual steps for calculating the PMA's suppressed demand are as follows:

- **Step 3a**: For years where availability has been below the 5.5% equilibrium threshold, we calculate the quantum of floorspace necessary to achieve 5.5% availability (Column "Av. To EQ (sqft)" in **Table 7.1**, calculation F);

- **Step 3b**: We then take the average of the ratio between net absorption and available floorspace for every year over the past decade (Calculation E averages 67% based on

Column "Net Absorption / Availability");

- **Step 3c**: We apply this average to the estimated floorspace required to reach 5.5% availability in each year where the market is below the 5.5% equilibrium threshold to estimate each period's suppressed demand (Calculation F*E in Column "Suppressed Net Absorption (sqft)");

- **Step 3d**: We calculate average suppressed net absorption over the past decade. This give the annualised suppressed demand figure to be used as a top-up to the historic trend. The estimated average suppressed demand figure for the PMA is 502,300 sqft per annum since 2011.

Table 7.1 shows the relevant calculations.

Table 7.1 Suppressed Demand Calculations within the PMA

	A	B	C=(A*B)	D	D/C	F=(5.5%-B)*A	F*E
Years	Inventory (sqft)	Availability (%)	Availability (sqft)	Net Absorption (sqft)	Net Absorption / Availability	Av. To EQ (sqft)	Suppressed Net Absorption (sqft)
2021	85,647,784	3.1%	2,655,081	2,319,346	87%	2,055,547	1,374,333
2020	82,798,126	3.8%	3,146,329	5,150,143	164%	1,407,568	941,096
2019	80,001,790	5.1%	4,080,091	2,072,158	51%	320,007	213,956
2018	77,700,325	4.0%	3,108,013	1,357,223	44%	1,165,505	779,254
2017	76,143,340	6.4%	4,873,174	2,036,279	42%	-685,290	-
2016	74,134,008	6.4%	4,744,577	2,732,415	58%	-667,206	-
2015	69,822,031	3.1%	2,164,483	1,600,438	74%	1,675,729	1,120,388
2014	68,606,370	3.5%	2,401,223	1,818,727	76%	1,372,127	917,401
2013	67,020,506	5.1%	3,418,046	2,619,797	77%	268,082	179,239
2012	65,904,139	6.3%	4,151,961	539,186	13%	-527,233	-
2011	65,045,815	6.9%	4,488,161	2,301,014	51%	-910,641	-
					E=Average		Suppressed Demand=Average

Source: Savills, CoStar

- **Step 3e**: The final step requires adding the combined annualised historic (2.2 million sqft per annum) and suppressed demand (502,300 sqft per annum) figures totalling 2.7 million sqft (rounded) per annum, and multiplying this by the number of years in the plan period (2.7 million sqft x 20 years). This gives a total floorspace demand of **54.7 million sqft** over a 20-year period.

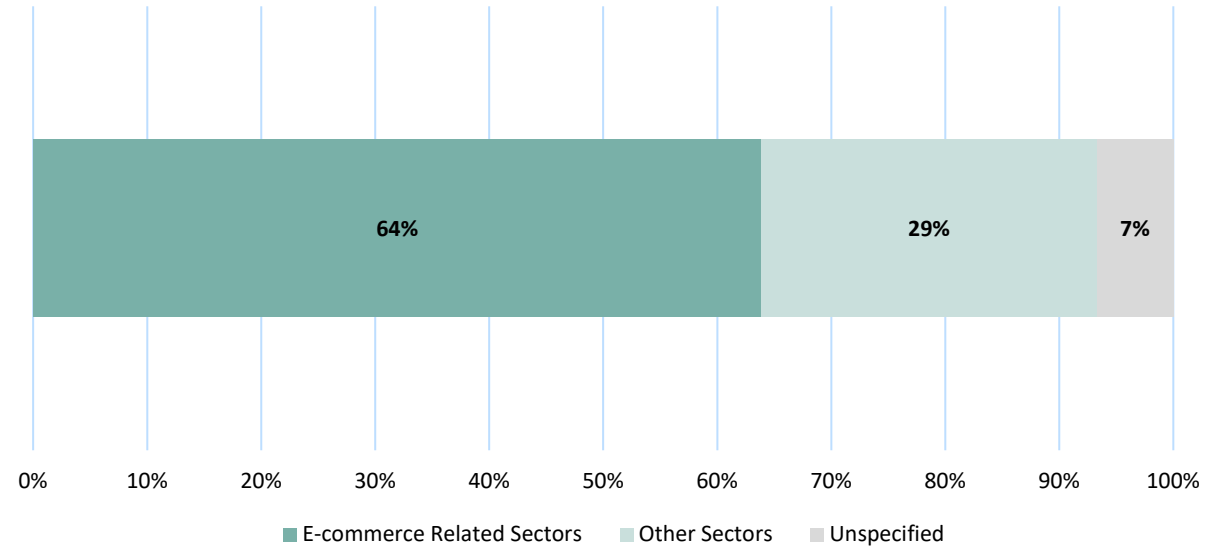
Step 4: Adjusting for increases in online retail

7.2.15 As discussed in **Chapter 3** there are a number of factors driving future growth in demand for I&L uses which are not captured by historic trend based projections. Attempting to factor them all in is a challenging exercise prone to errors and overestimation due to the uncertainty around major events such as Brexit and the risk of double counting the

impacts of different growth factors. The strongest growth drivers are population growth and the move to online shopping, which the Covid-19 pandemic has accelerated. We consider demand arising from population growth to be largely captured by increases in online sales which are a function of household spending and household growth. For this reason, in our work we focus on the move to online shopping.

7.2.16 In order to estimate future increases in I&L demand linked to e-commerce growth, we first need to establish the share of demand that has historically been linked to e-commerce and then determine how much higher this is likely going to be in the future. As discussed in **Chapter 5** above, the sectors which are typically linked to e-commerce are Retail, Transport and Warehousing and Wholesale. Across the PMA these sectors account for 64% of leasing demand, as shown in **Figure 7.2**. If we assume that this share remains the same to the end of the plan period, 64% of projected future demand corresponds to 34.9 million sqft (64% * 54.7 million sqft) over the plan period.

Figure 7.2 PMA Leasing Activity by Sector, 2011-2021



Source: Savills (2022); CoStar (2022)

7.2.17 We have considered Forrester's[67] online retail forecasts for the UK to 2025 and compared the annual increase in online spending over this period to that seen over the last 10 years. As shown in **Table 7.2**, between 2011 and 2019 online retail sales increased at an average rate of £5.95 billion per annum. 2020 marked a departure from the historic trend, bringing total online sales above £100 billion, up from £79 billion in 2019 (a £26 billion annual increase). If we accept that 2020 and 2021 were exceptional years due to the Covid-19 pandemic and exclude them from our calculations, and focus on the period between 2022 and 2025, online sales growth is predicted to average £9.86 billion per annum. This suggests a 66% uplift from the 2011-2019 trend.

[67] A prominent retail forecasting house

Table 7.2 UK Online Sales Forecasts to 2025 (£ million)

Year	Online Sales (£m)	Annual Increase (£m)	
2011	£29,946	+£4,337	*2011-2019 Average Annual Increase +£5,950 million*
2012	£34,417	+£4,471	
2013	£38,908	+£4,491	
2014	£43,905	+£4,997	
2015	£49,212	+£5,307	
2016	£56,549	+£7,338	
2017	£64,505	+£7,955	
2018	£72,014	+£7,509	
2019	£79,157	+£7,143	
2020	£104,827	+£25,670	*Excluded from calculations as these were atypical years due to the Covid-19 pandemic*
2021	£122,831	+£18,003	
2022	£134,005	+£11,174	*2022-2025 Average Annual Increase +£9,860 million (+66% uplifted compared to 2011-2019)*
2023	£143,267	+£9,262	
2024	£152,722	+£9,455	
2025	£162,271	+£9,549	

Source: Forrester, Savills

7.2.18 Applying this 66% uplift to the historic and suppressed demand from e-commerce sectors yields a future demand of 57.8 million sqft over the plan period. This equates to an uplift of 23 million sqft (**Table 7.3**).

Table 7.3 Adjusting for Current and Future Increases in Online Retail within the PMA

Demand	Annual (sq. ft)	Over Plan Period (sq. ft)
E-commerce related (64% of historic + suppressed)	1,746,600	34,932,500
E-commerce related after 66% uplift	2,894,500	57,890,500
E-commerce demand uplift	1,147,900	22,958,000

Source: Savills

Step 5: Savills Estimate of Future I&L Demand across the PMA

7.2.19 Adding the e-commerce uplift to the combined historic and suppressed demand estimates yields a total demand of **77.6 million sq.ft.** over a 20-year plan period, as summarised in **Table 7.4 .**

Table 7.4 Summary of Future Demand (over Plan Period) within the PMA

Adjustment Type	Adjustment (sqft) (over plan period)	Total (over plan period)
Historic Demand (Net Absorption) Over 20 years		44,630,400
Suppressed Demand Over 20 years	+ 10,046,700	54,677,100
Ecommerce Uplift	+ 22,958,000	77,635,000

Source: CoStar, Savills

7.2.20 The above floorspace figures are translated into land requirements using a plot ratio of 35%. From our review of employment land studies in **Chapter 4**, we found plot ratios in the region of 39% to 50%, with the GL Hearn study adopting a 35% for road-based sites and a 25% ratio for rail-based sites. Based on our professional experience and examples of recent developments from across the country, we consider a 40% plot ratio to be too high and not reflective of modern I&L occupier requirements for larger units which typically command a ratio in the region of 30-40%. Therefore we consider a 35% ratio as appropriate which we evidenced in **Section 6.2**.

7.2.21 Applying a 35% plot ratio to the estimated floorspace demand of 77.6 million sq.ft. translates into a future land requirement of **2,061 ha across the PMA**. This is for all I&L uses in units above 100,000 sq.ft. The proportion relevant to B8 uses only is detailed below.

7.3 ESTIMATING B8 DEMAND ACROSS PMA (100,000+ SQ.FT UNITS)

7.3.1 As discussed at the beginning of this chapter, our approach is to first consider overall I&L demand (i.e. all I&L uses) across the 100,000+ sq.ft. segment. This is because using a larger pool of data allows for a more accurate assessment of market trends, plus industrial and logistics occupiers, while having different operations, have similar preferences in terms of location and the sorts of premises they desire. For these reasons, investigating overall market demand in the first instance and then interrogating the results by use class is considered a preferable approach.

7.3.2 We have considered a number of indicators to apportion B8[68] demand within the 100,000+ sq.ft. segment. These consist of:

- The current proportion of B8 inventory relative to overall I&L uses;
- The proportion of B8 average demand per annum (net absorption) between 2011 and 2021 (i.e. 10-year demand trend) relative to overall I&L uses;
- The proportion of B8 average gross deliveries of stock per annum between 2011 and 2021 (i.e. 10-year supply trend) relative to overall I&L uses; and

[68] To define B8 we have used the following Costar secondary uses: Distribution, Light Distribution, Refrigeration/Cold Storage, Telecom/Data Hosting, Truck Terminal, Warehouse, and Showroom.

7.3.3 The results of these comparisons are detailed in **Table 7.5** below. Inventory gives the lowest metric at a 78% share while demand (net absorption) and new supply (net deliveries) over the last decade are higher at 90% and 89% respectively.

Table 7.5 B8 I&L market share across PMA (100,000+ sq.ft.)

	ALL	B8	B8 %
Inventory (2022 YTD)	86,140,000	66,999,000	78%
Average Net Absorption p.a. 2011-2021	2,232,000	2,014,000	90%
Average Gross Deliveries p.a. 2011-2021	2,244,000	1,988,000	89%
		Average	**86%**

Source: CoStar, Savills

7.3.4 Based on the average of the above metrics, we assume that B8 uses will account for 86% of future I&L demand across the PMA for the 100,000+ sq.ft. unit segment. This equates to **1,772 ha** over the 20-year plan period.

Chapter 8 ◆ Summary & Recommendations

8.1.1 The I&L sector is booming nationally. Even before the pandemic the I&L market had been growing strongly with demand outstripping supply. The Covid Pandemic has merely accelerated a number of growth drivers that were already in place such as online shopping and the desire for quick deliveries. Brexit too is increasing I&L demand as companies consider bringing part of their operations back to the UK to guard against future supply chain shocks, as well as increasing their inventory levels. Significant growth is also forecast across all freight modes, including rail, which is directly linked to demand for the proposed HNRFI.

8.1.2 The latest figures from Savills Big Shed Briefing indicate that national demand (gross) is currently **86% above the long term average**[69], while vacancy is extremely low at only 3%. Even stronger than the national picture, demand in the East Midlands was **113% above the long term average** in 2021, the highest on record[70], and take-up in the West Midlands too reached a new record in 2021. We estimate that the proposed HNRFI's property market area[71] has accounted for nearly a third (30%) of market demand across the two regions.

8.1.3 Given the struggles being faced by the office and retail sectors, I&L is likely to be the major generator of jobs for many local economies. Across the PMA, logistics jobs have increased by 25% between 2015 and 2020, while other commercial sectors such as office and retail have seen a drop in employment numbers locally. This means that the logistics sector is a clear growth sector for the local economy. As we have evidenced in the report, average pay levels within the sector are nearly £5k per annum higher than the UK average. The diversity of occupations has also been increasing which will enable the sector to play a key role in re-employing people that have lost jobs in other sectors as a result of the Covid Pandemic. This is highly relevant for the East Midlands and the West Midlands where the claimant count[72] is still around 27% higher than the level recorded before the pandemic. Should not enough I&L land be allocated into the future, and subsequently the historic supply constraints continue, I&L demand will remain 'suppressed' as will the jobs and wider economic contribution the sector can make to local and regional economies.

8.1.4 While many of the various local and regional employment evidence studies that cover the PMA acknowledge demand has been outstripping supply, their various future estimation methods fail to take into account demand that has been lost due to the lack of available supply. The regional GL Hearn & Iceni study applies an interesting methodology looking at freight flows, however this approach is based around unevidenced assumptions and estimates a lower future floorspace need than the historic completion trends. This appears completely at odds with the above market realities of the sector achieving the highest demand on record.

8.1.5 The Savills approach to estimating future demand is aimed at addressing the above methodological issues by focusing directly on market trends rather than secondary factors

[69] Savills Research (2022) Big Shed Briefing (January 2022)
[70] Savills Research (2022) Big Shed Briefing – The Logistics Market in the East Midlands
[71] The PMA captures key operational and supply chain linkages in addition to competitor locations from a market perspective.
[72] The number of people claiming benefit principally for the reason of being unemployed

such as jobs growth or historic land supply trends (i.e. take up). Our methodology is NPPG–compliant as it builds upon historic demand (net absorption), adjusting past trends for historic supply shortages and the subsequent loss in demand. We refer to this as 'suppressed demand' which is added to the historic demand trend as a top-up. We also factor in future e-commerce growth which is a key growth driver for the sector.

8.1.6 Based on Savills demand methodology, over a 20-year plan period, we estimate PMA wide I&L demand for 100,000+ sq.ft. units to be 2,061 ha of land. We estimate that 86% of this demand will be for large scale B8 units, equivalent to **1,772 ha**. This apportionment is based on B8 uses' average share of existing I&L inventory, historic demand and historic deliveries of new stock.

8.1.7 We have also estimated future supply for large scale B8 across the PMA based on current building availability, land supply which benefits from planning permission and future pipeline sites that benefit from either an allocation or draft allocation. Our supply estimate amounts to **709 ha**.

8.1.8 This indicates large B8 unit demand is roughly 150% (2.5 times) higher than the available supply, clearly supporting the conclusions from the market assessment that the PMA market is severely supply-constrained and therefore needs more quality strategic sites to help meet the strong demand.

8.1.9 The 226 ha HNRFI will help to address this **1,063 ha shortfall in supply**.

Glossary

SRFI	Strategic Rail Freight Interchange
HNRFI	Hinckley National Rail Freight Interchange
I&L	Industrial & Logistics
PMA	Property Market Area
p.a.	Per Annum
sqm	Square Meters
sq.ft.	Square Feet
YoY	Year-on-yer
ha	hectares
YTD	Year-to-date

Appendix A – PMA Market Equilibrium

Year & Quarter	Real Rent £/sq.ft	Rental Growth Q-o-Q	Availability Rate
2021 Q4	£7.43	1.0%	3.1%
2021 Q3	£7.36	1.0%	2.8%
2021 Q2	£7.29	0.4%	3.4%
2021 Q1	£7.26	1.7%	4.1%
2020 Q4	£7.14	1.3%	3.8%
2020 Q3	£7.05	0.7%	4.3%
2020 Q2	£7.00	1.2%	5.6%
2020 Q1	£6.92	1.5%	6.7%
2019 Q4	£6.82	1.5%	5.1%
2019 Q3	£6.72	0.9%	3.8%
2019 Q2	£6.66	0.8%	3.6%
2019 Q1	£6.61	1.7%	3.8%
2018 Q4	£6.50	1.6%	4.0%
2018 Q3	£6.40	0.9%	4.8%
2018 Q2	£6.34	0.6%	5.5%
2018 Q1	£6.30	1.8%	5.8%
2017 Q4	£6.19	0.8%	6.4%
2017 Q3	£6.14	1.5%	5.0%
2017 Q2	£6.05	0.3%	6.1%
2017 Q1	£6.03	1.0%	6.2%
2016 Q4	£5.97	0.8%	6.4%
2016 Q3	£5.92	0.5%	6.3%
2016 Q2	£5.89	0.7%	6.2%
2016 Q1	£5.85	3.0%	4.4%
2015 Q4	£5.68	1.6%	3.1%
2015 Q3	£5.59	1.8%	2.2%
2015 Q2	£5.49	0.4%	2.7%
2015 Q1	£5.47	2.1%	3.9%
2014 Q4	£5.36	0.6%	3.5%
2014 Q3	£5.33	0.0%	3.9%
2014 Q2	£5.33	0.4%	5.0%
2014 Q1	£5.31	0.8%	5.2%
2013 Q4	£5.27	0.6%	5.1%
2013 Q3	£5.24	-0.4%	6.1%
2013 Q2	£5.26	-0.2%	6.5%
2013 Q1	£5.27	-0.6%	6.5%
2012 Q4	£5.30	-0.9%	6.3%
2012 Q3	£5.35	0.2%	6.7%
2012 Q2	£5.34	-0.6%	7.2%
2012 Q1	£5.37	0.0%	6.7%
2011 Q4	£5.37	-1.1%	6.9%
2011 Q3	£5.43	-0.7%	6.9%
2011 Q2	£5.47	-1.6%	6.3%
2011 Q1	£5.56	-0.7%	7.2%

Source: Costar, Savills

Appendix B – Supply of Buildings

Hinckley SRFI - PMA Building Supply

Ref	Unit	Location	Size (sq. m)	Comments/Use
1	Apollo 2, Ansty	J2, M6	16,039	Speculative unit B2/B8 unit available Q4 2022.
2	Leicestershire Distribution Park	J21/21a, M1	13,935	Speculative unit (Eg(i)/B2/B8).
3	Unit 1 Griffen Park, Desford	Desford (M1/M69)	11,764	Speculative under construction
4	Bardon Hill (Units 5/6)	J22, M1	10,993	Speculative unit under construction. Under offer, PC August. B2/B8
5	MPS5, Magna Park South	M1/M69/M6	17,352	Speculative unit, under construction. PC Sept/Oct 2022.
6	MPS6, Magna Park South	M1/M69/M6	19,651	Speculative unit, under construction. September 2022 PC.
7	MPS7, Magna Park South	M1/M69/M6	23,819	Speculative unit, under construction.
8	Unit 1 Coventry Logistics Park	J2, M6	45,032	Speculative unit under construction. B8 - under offer, PC September
9	Unit 2 Coventry Logistics Park	J2, M6	23,364	Speculative unit under construction. B8 - under offer, PC September
10	Unit 1 Mercia Park	J11, M42	19,973	Speculative unit due for completion PC July 2022.
11	Unit 5 Mercia Park	J11, M42	29,263	Speculative unit due for completion PC July 2022,
12	DC10, Prologis Park, Coventry	J3, M6	15,450	Secondhand unit. Grade B.
13	Rugby 661, Central Park, Rugby	J1, M6	61,441	Secondhand Grade B unit on 14.1 ha plot.
		Total	308,076	

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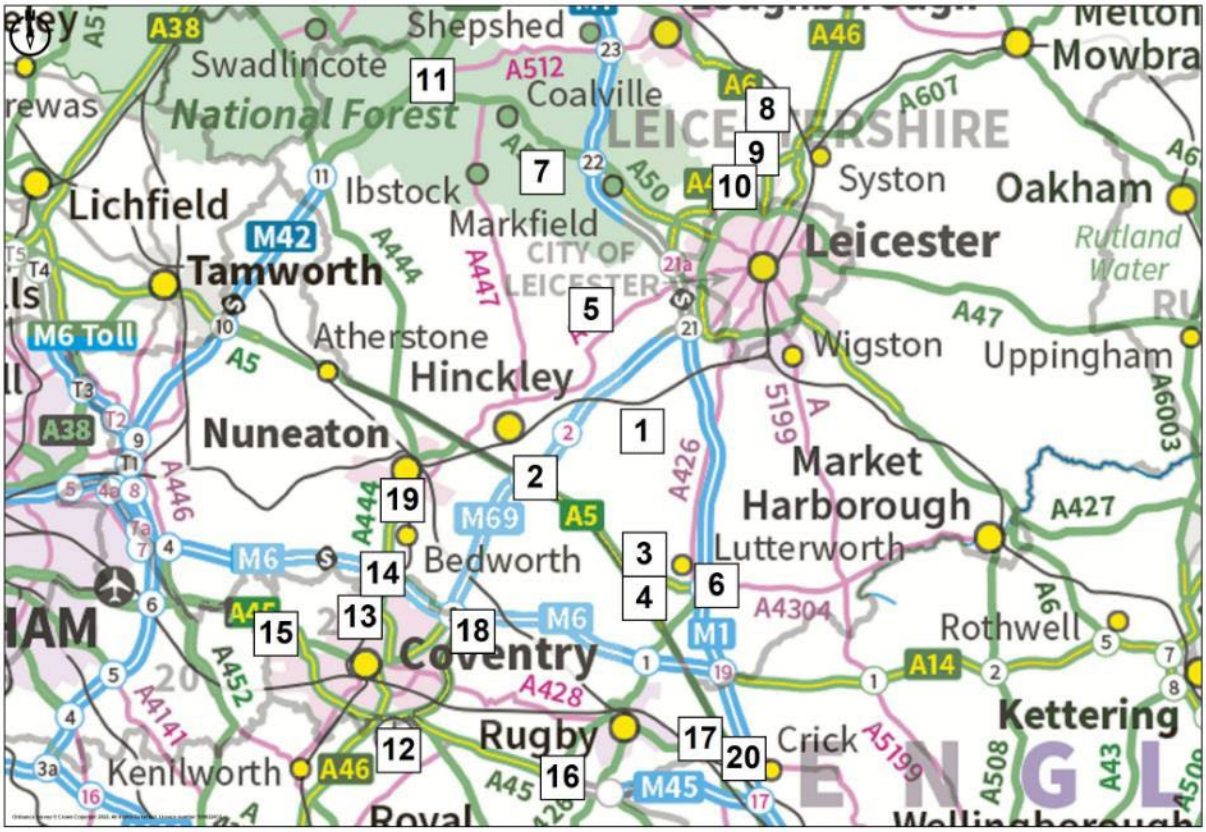
Appendix C – Land Supply

Hinckley SRFI - PMA Available Land Supply

	Scheme Name	Developer / Owner	Capacity (sq. m) - Red = 35% density	Capacity for B8 'big sheds' (sq. m)	Max Unit Size (sq. m)	Permitted Use
	Leicestershire					
1	Elm Business Park, Broughton Astley	Brackley Property Developments	11,148	11,148	11,148	B2/B8
2	Hinckley Park, Hinckley & Bosworth (J1, M69)	IMP	41,806	0	31,587	Class E(g)/B2
3	Magna Park North, Lutterworth	GLP	193,334	193,334	81,274	B8
4	Magna Park South, Lutterworth	GLP	59,868	59,868	36,088	B8
5	Griffen Park, Desford, Leicester	Griffen	78,969	63,175	47,381	B2/B8
6	Lutterworth East (M1, J20)	Leicestershire CC	86,000	52,000	tbc	B8
7	Bardon III, Hinckley & Bosworth	Wood Farm Holdings	89,200	89,200	tbc	B2/B8
8	Cross Link 646, Rothley Lodge Commercial Park, Leicester	Rotherhill	11,891	11,891	11,891	B2/B8
9	Broadnook Garden Village (Leicester/A46)	Barwood Land	42,500	15,000	15,000	Class E(g)/B2/B8 subject to limitations
10	East of Ashton Green	Leicester	19,440	0	5,621	E(g)/B2/B8
11	Former Coal Lounge (G-Park, Ashby)	GLP	68,422	68,422	63,922	E(g)/B8
	Coventry & Warwickshire					
12	SEGRO Park, Coventry Gateway	SEGRO	315,870	315,870	92,903	B8 (limited B2)
13	Whitmore Park	Coventry	23,660	23,660	tbc	E(g)/B8
14	Wilsons Lane, Coventry (Nuneaton & Bedworth), J3 M6	L&Q	55,750	50,000	50,000	B8
15	A45 Eastern Green	Coventry	52,500	52,500	tbc	E(g)B2/B8
16	Symmetry Park, Rugby	Tritax	96,258	96,258	74,322	B8
17	Houlton, Rugby (Rugby Radio Station)	Urban & Civic	106,000	15,500	tbc	E(g) with limited B2 and B8
18	Plots 5, 6, 7, Prospero, Ansty	Rolls Royce	62,689	0	37,161	B1/B2
19	Faultlands, Nuneaton	Baytree	92,904	92,904	74,322	B2/B8
	Northamptonshire					
20	Prologis DIRFT	Prologis	491,071	491,071	92,900	B8
		Total	1,999,280 B1/B2 153,189	1,701,801		



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Appendix D – Pipeline Supply

Hinckley SRFI - PMA Pipeline Land Supply

Ref.	Plan Ref	Scheme Name	Local Authority	Planning Status	Size (ha)	Floorspace Capacity (sq. m) Red = 35%	Big Sheds B8 capacity	Max Unit Size (sq. m)	Use
1	SA3	Land West of St Johns, Enderby (J21, M1)	Blaby, Leicestershire	Allocation in Local Plan, planning application awaiting determination (application for link road)	23.1	106,568	106,568	106,568	B8 with ancillary B1/B2
2	F2	Land off Marlborough Drive, Fleckney	Harborough	Allocation	3.0	12,000	0	8,999	E(g)/B8
3	EMP3	Prologis Park Extension	Nuneaton & Bedworth	Allocation in Local Plan, planning application awaiting determination	5.3	25000	25000	15,973	B2/B8
4	EMP4	Coventry Road, Nuneaton (J3, M6)	Nuneaton & Bedworth	Allocation/Draft Allocation	9	22139	9,290	9,290	E(g)/B2/B8
5	EMP7	Bowling Green Lane	Nuneaton & Bedworth	Allocation (26ha) & Draft Allocation (19ha)	19	66500	66500	tbc	E(g)/B2/B8
6	JE2:4	Land at Baginton Fields	Coventry	Allocation	25	87500	87500	tbc	B2/B8
7	EC2	Land north of Ashby de la Zouch (Money Hill)	North West Leicestershire	Allocation	16	56000	56000	tbc	E(g)/B2/B8
8	E4	Southern Maufacturing Sector, MIRA (A5)	North Warwickshire	Allocation	42.0	139,354	0	tbc	E(g)/B2
9	E2	Land to the west of Birch Coppice, Dordon	North Warwickshire	Allocation	5.1	17850	17850	tbc	B2/B8
10	Site 702	Western Park Golf Course	Leicester	Draft allocation	20.5	70,000	70000	tbc	E(g)/B2/B8
11	Site 464	Beaumont Leys Park	Leicester	Draft allocation	8.8	25,000	25000	tbc	E(g)/B2/B8
12	Site 687	Eastern part of Thurcaston Road	Leicester	Draft allocation	2.7	9450	9450	tbc	B1/B2/B8
13	3a	DIRFT IV (J18, M1)	West Northants	Preferred Options	tbc	tbc	tbc	tbc	tbc
14	3b	Land at Crick (J18, M1)	West Northants	Preferred Options	tbc	tbc	tbc	tbc	tbc
				Total		**637,361**	**473,158**		
				Allocation		**520,911**	**368,708**		
				Draft allocation		**104,450**	**104,450**		

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