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The new adage: location, employment and power

In the middle of a technological revolution everything we know about property is changing and right at its heart is logistics. Industry experts examine the challenges - and possible solutions – in our round table sponsored by db symmetry.

Traditional norms are being turned on their head and the most traditional and indeed – what many would consider – the most conservative sector of the British economy is right at the heart of it: logistics. Everything is up in the air and no one really knows where the pieces will land – all that they do know is that the change in the sector is happening fast and old attitudes will have to change equally fast.

Christian Matthews, director at db symmetry says: "In our experience the old adage location, location, location should be replaced by location, power and employment. In terms of how we assess the new sites we look at, where we decide to go, which sites we want to invest in – while location is still the key driver, as it is for everyone, the other elements of power and employment are becoming increasingly important."

David Clewes director of Clewes & Co agrees: "Ten years ago I don't think anyone had power or labour in their top five key requirements. Around five years ago there were murmurings that the Magna Park Lutterworth area was a bit short on the labour front but it is only in the last twelve months that it has been there in the top five requirements – rent, lease length, location, power and employment."

As a developer db symmetry is all too aware of the employment issue climbing the agenda. Matthews says: "Employment is clearly important to an occupier but that occupier is looking at it from the basis of one building on a park, we are looking at it from a basis of a park with say nine other buildings and there must be enough employees for all not just for the one building – it is almost more important for us than to the occupier because we will not be able to lease the other buildings on the park if there is not enough employees to go round. It is now part of our due diligence [to look at potential employee statistics in any one area] prior to purchase to make sure that a particular site is worth investing many tens of millions of pounds in."

Are occupiers doing the same due diligence? According to Clewes: "Previously, nothing; recently, quite a lot; very recently, a huge amount – it is probably top of the agenda."

Chris Paddock a director at economic development and regeneration consultancy Regeneris, says: "In terms of employment studies done by occupiers prior to choosing a location, the studies themselves are not particularly sophisticated but they are better than they were. We work for occupiers across a range of different sectors and they are increasingly looking at the availability of labour and the costs of labour in a total cost equation regarding where they might locate.

"They might balance out proximity with the cost of labour particularly if employing three hundred people; then assess the difference between competing locations. You can actually take a prime location and take a less prime one and the difference in the cost of labour can be £1 million a year…"

William Bellman a director at Colliers adds: "Its not just about looking at the local employment it is also about looking at who else is on the park – there are certain occupiers where you get seasonal surges sucking up employment at certain point of the year – can the local workforce accommodate that without it impinging on other occupiers? I think we have got to the point with out the qualification where employment has superseded location; where is the employment and that will almost dictate where [the occupier] will go."

The rapidity of change within the sector is having structural change on the number and type of employees required. Clewes notes: "Levels of employment are changing. Ten years ago this was an issue for planners, warehouses did not employ many people but that has changed a bit, now we are looking at warehouses as major sources of employment."

Big retailers are facing headwinds in the current climate with the likes of Mothercare, New Look, Marks & Spencer and House of Fraser shutting shops nationwide with the loss of thousands of jobs on the high street but says Bjorn Hobart a partner at logistics property investor Tritax: "What we are seeing is a redistribution of that employment from a store based employment focus to a logistics base focus."

Basically this is due to the increase in online sales. According to the British Retail Consortium online shopping accounts for 22 per cent of non-food retail sales in the UK. That shift is forcing merchants to operate from fewer, higher-quality locations and to reimagine their supply chain to meet the demands of their customers.

Hobart notes: "The store format and online presence kind of work in harmony. Some of the top retailers, that aren't the pure play, have an amalgamation of both. You do not want a store portfolio that is too big because that is just dragging you down – you want one that is prime pitch. Even that is evolving – it is more of a show room offering these days. John Lewis is a case in point; they had a 40:60 split between front of house and storeroom but that has now changed to 80:20; at the same time its logistics offering has gone from a single NDC in the middle of the country to a bigger RDC format able to supply its customers on a next day if not same day service."

Savills director Richard Sullivan adds that the situation is only going to get more acute. "A lot of retailers have taken too long to adapt and change and one of the reasons for that is that they have a very mature bricks and mortar portfolio with conventional methods of sale.

"Their ability to change that overnight is almost impossible and this is why we are seeing shop closures, mergers and acquisition and why we will still see more, as retailers try to work out in the modern world how they are going to reach their customer – its not about selling stuff anymore its primarily going to be selling stuff through logistics."

Hobart notes: "Logistics space is going to be the new retail."

It is important to note that even the most modest of logistics buildings has, what in normal circumstances would be called, a large office component. Andrew Dickman of db symmetry explains: "If you let a 100,000 sq ft building – which is relatively small in our sector – its got an office content of say 7.5 per cent – that is a 7,500 sq ft office letting. If you let a 1 million sq ft facility and you have ten per cent offices, suddenly you are employing a huge amount of people in offices. We don't think about that dynamic when we are looking at a logistics building. For the most part it is a 250,000 sq ft shed but it could equally be a 25,000 sq ft office with a warehouse strapped to it."

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The reason why the offices are so large is just that they are employing a lot of people. Hobart notes: "We are seeing more functions brought into the logistics facility, marketing functions, managerial, call centres etc and we are finding that occupiers want offices made up to business park specification with add on facilities such as canteens, crèches, hairdressers, on-site pharmacies, doctors and all of those functions are there to retain and attract staff."

The workforce is changing and so is the way we work notes Paddock: "What the workforce is and what the labour market is, changes particularly in the logistics sector.

Hobart agrees: "The old thought process of what logistics was is being torn up and is evolving and the next five to ten years will be as exciting if not twice as much."

"The evolution is happening," says Matthews: "We have seen manufacturing from the 70s etc becoming more mechanised, that evolution happened and it is that much more sophisticated now – we have lost jobs out of it. I think the same has happened/ is happening to the logistics industry in that we are going to lose the basic jobs because they will be done by robotics but in turn that generates a higher level of employment in the technology part of the sector. Yes there will be less jobs in a building – what I call basic warehousing jobs – but there will be a more diverse level of jobs, more up skilled jobs.

"Unfortunately," says Paddock, "policy and particularly the education and skills provision has not really kept up with that so people are not engaging with the labour market in a way that is flexible enough."

Bernard Molloy, global industrial logistics director at Unipart Logistics agrees and adds: "If you want to increase UK plc productivity you have got to educate people and got to enable them to get to work. Government policy is not joined up enough."

The issues affecting the scope and levels of logistics employment in a region range from inadequate housing of the right kind for workers, lack of transport, lack of joined up strategic planning and out-dated attitudes towards logistics.

Sullivan says: "I think there is a

PANELLISTS

Christian Matthews, director, db symmetry

Bjorn Hobart, partner, Tritax

Dan Poulson, director, Base Power

David Clews, Clews & Co

Chris Paddock, director, Regeneris

Andrew Dickman, director, db symmetry

Richard Sullivan director, Savills

William Bellman, director, Colliers International

Mark McCluskie, senior transaction manager, Aberdeen Asset Management

Bernard Molloy, global logistics director, Unipart Logistics realisation from politicians that logistics is probably going to be one of the most important economic contributors to UK plc and we are not sexy. The reality is that we have to try to educate as wide an audience as possible that actually this [logistics] is not a trucker on the road carrying some product – it is a much more sophisticated, much more complex, more exciting industry than it ever has been and it is driven by technology. It is going to be our collective responsibility to get that message across to the people."

And it is a message that needs to be got across quickly. The labour situation is unlikely to get much better moving forward says Molloy, "the reality of Brexit is that there is going to be a bigger shortage of labour. It is going to have an enormous effect on the economy."

If labour were not enough to be concerned about, power is also an increasing issue for the industry.

Matthews notes: "The capacity margin in the grid, which is the phrase they use to measure what we can produce in power against what we need in terms of power, that margin keeps coming down to a point where we have only got 5 per cent spare capacity.

"So if all the power we can generate, is generated, and all the power we demand, is demanded – there is only a 5 per cent margin. In that sort of situation you only need one power station to fail and you are into difficulties."

"And that is only being made worse by the fact that capacity requirements are increasing day by day," adds Dickman.

Dan Poulson of Base Power says: "There is concern about generation but generation capacity fails perhaps once a decade, however, transmission fails perhaps once a week with final distribution to customer sites failures occurring every two minutes.

"So while the buzz is that there might not be enough generators there are certainly not enough transition and distribution structure and so any growth with any new capacity facilities require not just huge central generators but also the wires to linked them. Much of the essential infrastructure has had no investment for years. There are gaps not just in generation but in the distribution and transport network."

If that were not enough Mark McCluskie, senior transaction manager at Aberdeen Asset Management, points out given the government's commitment to replace older style power stations with gas fired ones "our gas strategy seems to be dependent on places that are geopolitically sensitive whether that be the Middle East or Russia".

There is definitely a call for seeking alternative production such as wind and solar power but there is also a need for alternatives in distribution and transmission.

Matthews says: "From our point of view we cannot just stand back and say its going to be alright. We have got to look at other ways of generating power for our parks and make sure our occupiers have that resilience so that they are not facing closures because they cannot get the power when and where they need it. There are lots of stories out there of occupiers already facing shutdowns and four day weeks because they cannot get the power they need, for us that is not acceptable and not acceptable for our occupiers and therefore we need to be proactive and we need to go source solutions.

Some solutions might be within grasp. Poulson explains: "We could wait for central policy driven investment which is national scale infrastructure or we could build privately. We could use private investment to look after individual developments, factories and operations then see a way of integrating them in to the main infrastructure instead of building four to eight gigawatt power stations, we build 100 micro power stations. The solutions is private investment to build local infrastructure then to integrate that into the national infrastructure."

If only it were so easy. There are some self sufficient developments emerging in the UK, says Matthews, "we are working on half a dozen schemes, which could all achieve that, but the current economics mean that it can take you five to ten years to pay off."

Storage of self generated solar power will undoubtedly be a solution says Matthews but at present the maths do not make sense. "That will change because the battery storage costs will come down, the efficiency will go up and there will come a point in time where it will make sense. At present we design all our roofs such that they can take that solar power in the future but at the moment the maths just don't stack up."

"In a country where we, compared with many others, are scarce on land how can it make sense to have fields full of solar panels and roofs without?"

A solution to that problem would have to come from government; if surplus energy could be got onto local networks at a cheap price then more privately owned companies would invest.

Perhaps says McCluskie the solution would be one of national planning policy for transport and energy infrastructure outside the control of politicians – a bonus when infrastructure initiatives span 10 – 30 years and governments can change every five years.

"We are not forward thinking enough; our infrastructure is barely meeting the minimum we don't future proof. If we have national planning for energy and transport out of the hands of government but run say by a chief executive who can just crack on and do stuff and deliver – surely that has to be the answer than say a Conservative MP with a conservative energy policy then a Labour MP with a labour energy policy…" ■

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Created in 1996, db symmetry has evolved to become one of the leading independent privately-owned logistics development companies in the UK. The company has a land and development portfolio comprising 3,087 acres, of both 'ready to go' consented land (693 acres / 9.2m sq ft) and probably the UK's largest strategic land portfolio for logistics (2,394 acres / 36.6m sq ft). The portfolio is extremely well located, concentrated around the main motorway arteries of the UK and primarily around the 'Golden Triangle' of the M1 and M40 and the North West's prime M6 and M62 corridors. Furthermore, db symmetry has one of the most active speculative development programmes in the country of 1.38m sq ft across 10 buildings over 6 schemes. Built to an institutional specification, all our speculative developments can be fitted out to meet occupiers' individual requirements.