

NEW
Industry
Report



BIG things in SMALL boxes

The small to mid-box warehousing, sub-100k sq. ft. property market has incredible potential, if unconstrained it could boost Britain's economy.

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The small to mid-box warehousing, sub-100k property market has incredible potential, if unconstrained it could boost Britain's economy.

Foreword: Time for a big refocus on smaller warehouses



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In Britain, hardworking towns and the industrial and logistics (I&L) real estate that serves them are closely linked. However, it's a strange fact that neither successful towns, nor the I&L real estate surrounding them ever achieve significant growth. So why is this?

Around 95% by number of units of the I&L property market operates out of small to mid-box warehousing units (sub-100k sq. ft.). The sector employs around 2.1 million people across England and delivers £124 billion Gross Value Added (GVA) into the economy each year. This is 7% of the total economy in terms of GVA.

Whilst it is predominantly SMEs that exist in these smaller spaces, increasingly, large multinational brands are also using these premises as operational bases, including last mile delivery hubs. What is common across these businesses, however, is the fact they are intrinsically linked to the local people and economy of the area they reside in.

Despite the challenging economic times, the future in terms of the demand for more space in the small to mid-box warehousing market looks very bright. In fact, forecasts for 2025 to 2026 indicate that demand will build further. So, why isn't the sector growing to benefit local economies?

Simply put, there aren't enough small to mid-box developments being built to meet the current demand levels, let alone the increased demand still to come. This means businesses are staying put and "making do" with their existing premises, which is creating suppressed demand: where the properties simply aren't available for the businesses that need them.

This suppressed demand has spiralled in recent years for several reasons. Importantly, there has been a focus from the property sector on big box development (>100k sq. ft.), driven by demand and the wider commercial environment. Larger big box developers typically have deeper pockets, can benefit from lower build costs and achieve better yields than their small to mid-box counterparts.

Alongside this, Government and local authorities are more focussed on residential development than achieving the right balance of small, mid and big box warehousing. Whilst both are important, residential and logistics development must be looked at in tandem; currently the scale is tipped too far in favour of the former.

The result of all of this is suppressed demand, where demand outstrips supply, which stifles the productivity of local economies and hinders growth. Our data shows that demand is being suppressed by an average of 38% cross England which is worth £480 million in lost GVA per year. To unlock this demand, 6.2 million sq. ft. of new space is needed per annum.

However, with such a bright future ahead in terms of the projected demand for industrial and logistics space, what needs to be done to ensure that the right properties are built in the right places?

There needs to be a coordinated approach from Government and local authorities to identify opportunities for small to mid-box development alongside other land uses, sectors and business types. This will lead to greater opportunities for collaboration between a mix of developers and better utilisation of land available.

Co-location of small box schemes alongside big box is a large part of the solution. The responsibility for making this happen lies with local authorities which must think outside the box and seek to understand the benefits that mixed schemes can offer to local economies, workforces, businesses and consumers.

Of course, there are signs of positive movement, and if Government and industry can continue to build on this early momentum to collaborate more effectively, growth can be unlocked.

The future of the small to mid-box sector, the local economies it supports, and the wider economy itself could be a lot brighter.

Executive Summary: Reimagining the small to mid-box market

Like the huge number of businesses that use small to mid-box warehousing and make up the backbone of the British economy, the small to mid-box warehouse sector is the under-appreciated jewel in England's economic crown that has proven highly resilient and agile over time. With companies and people working in units below 100k sq. ft. across the UK, the so-called 'small to mid-box' market, is a powerhouse of enterprise.

This sector represents the vast majority of all Industrial and Logistics (I&L) property. It's not just about online retail and low-skilled, pick and pack jobs either; small to mid-box warehousing supports many high-value and highly skilled employees in a myriad of sectors from manufacturers of electrical aircraft to precision drones.

Yet small to mid-box warehousing companies, and the businesses that they support, are underserved by all the stakeholders in property development. Often overlooked by local authorities and central government, their ability to grow is limited. That's because the release of land and the new supply of property has focused on either residential property or larger warehousing, the so-called 'big box' segment of the market, and the large multi-national businesses they serve. The release of new land for this sector is therefore crucial.

In the year ahead, the focus must also be on small to mid-box warehousing. Let's not forget the increase in online retail means compact units are also needed to serve a variety of large businesses and their 'last-mile logistics' needs. The planning system should look to unleash the growth of the small to mid-box market, by allocating the right land in the right locations. In some regions and towns, you could more than double the area of smaller warehousing and it would only just meet demand – such is the shortage.

Macroeconomic forecasts suggest momentum for the small to mid-box market will increase around 2025 to 2026. We therefore need to build the sector out now in anticipation. If the supply deficit persists, this will further constrain availability and put upward pressure on rents, which are a real cost to businesses and their bottom line.

Co-location is one potential solution for local authorities looking at the I&L property market. Small, mid and big-box can coexist together within an ecosystem, where SMEs and larger businesses work with each other. Sites can support both, in terms of services and create a consistent pipeline of employment and logistics infrastructure. Co-location also provides a more robust, long-term plan for local authorities that hedges against economic cycles.

Change needs to happen now. Let's reimagine the I&L small to mid-box market.

In the year ahead, the focus must shift towards small to mid-box warehousing.

Smaller warehousing is an economic powerhouse

- 95% - Of the I&L property market is small to mid-box warehousing (sub-100k sq. ft.)
- 7% - Of the total economy in terms of GVA is in small to mid-box warehousing
- 2.1 million people - Employed in this sector across England
- Over 55% - Of all jobs in the industrial and logistics sector are in small to mid-box warehousing
- £124 billion - Gross Value Added (GVA) per annum that these jobs contribute.
- 13,000 start apprenticeships - Represents 31% of apprenticeships per annum in the I&L sector

Growth potential - Small to mid-box unleashed

- 38% - Demand for small to mid-box warehousing is suppressed by
- 166% - Demand for small to mid-box warehousing is suppressed by in Crawley, Sussex
- 18,000 start apprenticeships - growth from 13,000 per year if unsuppressed
- 6.2 million sq. ft. per annum - Warehouse space now needed in sub-100k sq. ft. sector
- 2025-2026 - GDP and household income will grow, boosting demand for small to mid-box warehousing
- 53% of demand was in the North (net absorption) over the last five full years (2018-2022)

Main take-outs on positive change

- Small to mid-box warehousing supports a resilient economy, including country wide businesses from small to large
- Big-box has had all the attention in the last 5 years, but we need to focus on small and mix box too
- Small to mid-box needs coordinated approach from Government and local authorities
- Co-location of smaller units with larger warehousing could be more economically robust

You can achieve BIG things in small boxes (above) - one of our warehouses in action.

Introduction

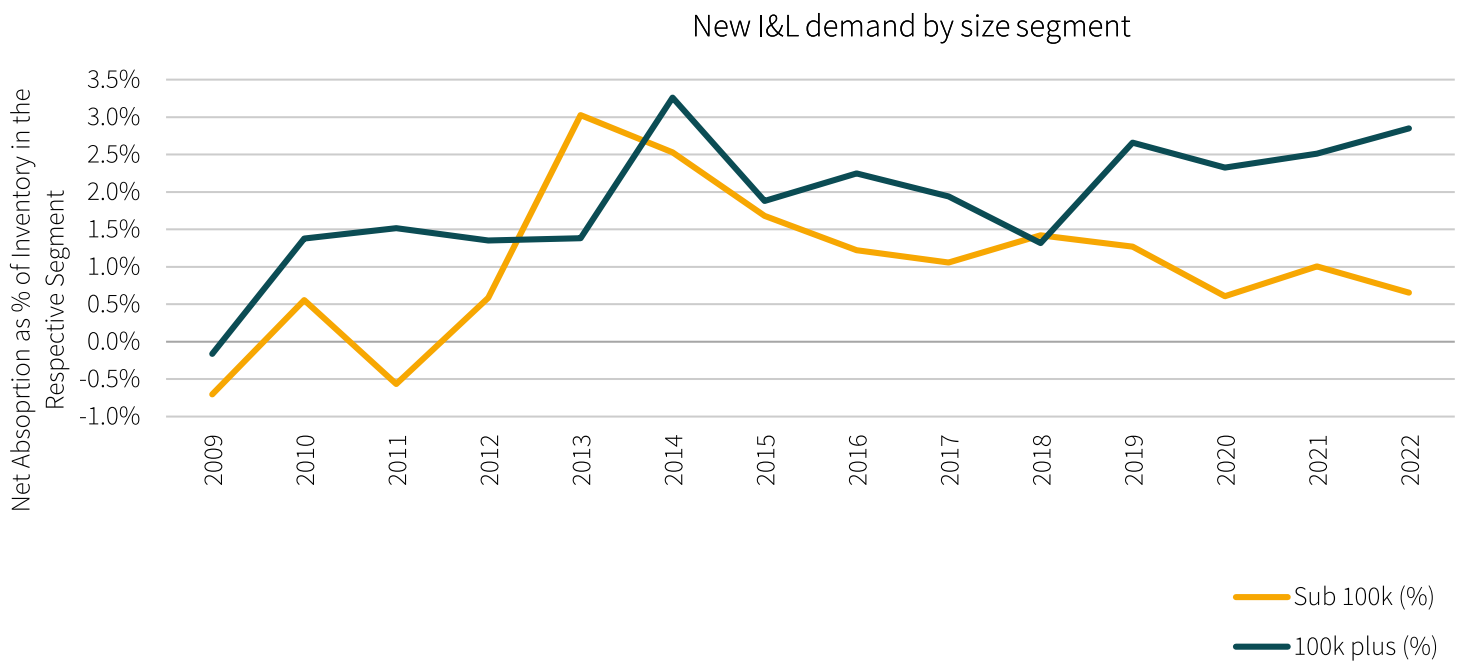
Potter Space has once again worked with Savills to conduct its second annual research report into the small to mid-box warehousing market. The research aims to shine a light on the sub-100k sq. ft. sector of the industrial and logistics (I&L) property sector.

It's a sector that is often overlooked in favour of analysis into the big box market, however, both Potter Space and Savills want to highlight its importance to the UK economy and its potential for growth.

A lack of land is still limiting growth

For the second year in a row, the research shows that there is not enough supply of land to meet the demand for small to mid-box warehousing space in England. New developments in this sector are in fact on the decline as a proportion of the total area of construction.

Our research shows that land supply constraints are acute for smaller premise. The lines on the chart show how much leasing demand (i.e. net absorption) has been accommodated relative to the size of each market's level of inventory. As can be seen the yellow line, representing the sub 100k market, has been below the green line representing 100k plus market every year other than 2013 over the last decade.

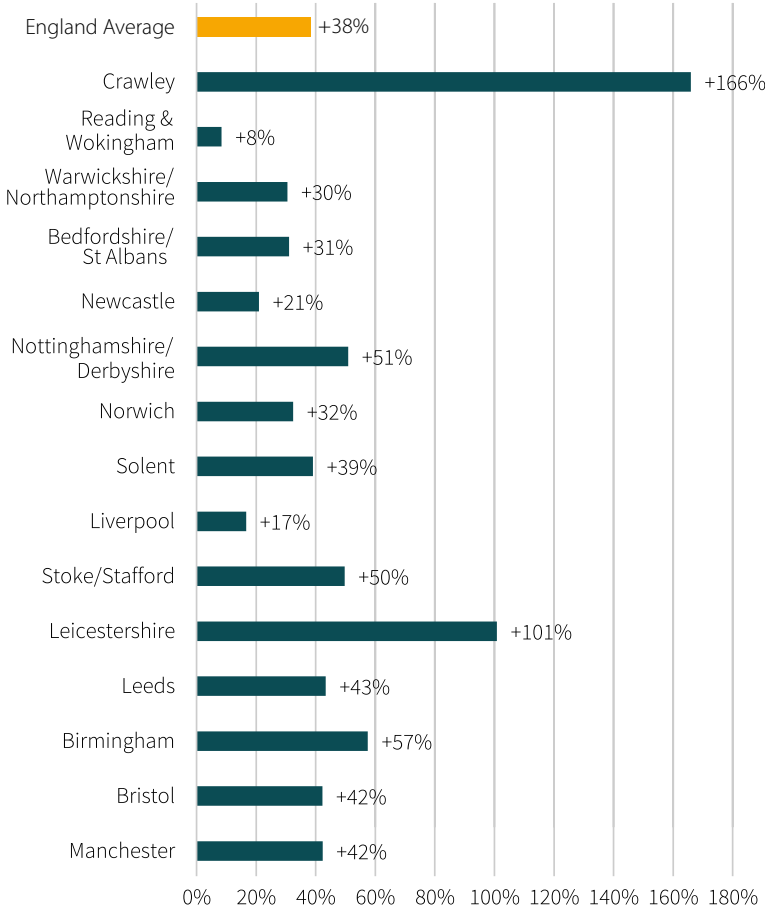


Demand suppressed across the regions

Smaller warehousing needs to be located where there is thriving commerce, but the research shows that demand for small to mid-box warehousing is being suppressed by 38% nationally, costing the economy £480 million in lost GVA. The situation in at least nine areas across England the situation is much worse. In Crawley, Sussex, it's 166%, Leicestershire, 101%, and Birmingham, 57%. This shows a negative picture that has real economic consequences.



Suppressed Demand Uplift Based on Historic Trend (2012-2022)



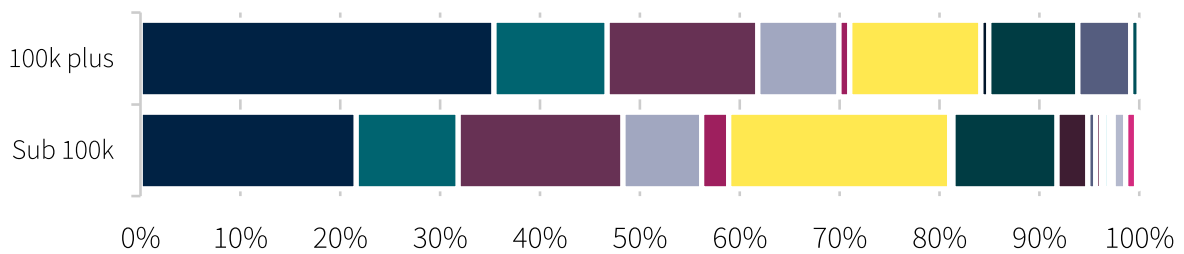
The equilibrium rate when supply and demand is broadly in balance, is around 10% for smaller I&L premises. This is the level at which real rental growth (adjusted for inflation) is typically zero or transitions between negative and positive values.

For larger premises, this is usually 5-6%.

For the I&L sector as a whole (i.e. all property sizes) the equilibrium rate is 8% at the national level.

A mix of organisations need space

Mix of Leased Floorspace by Identified Tenant Industry and Building Size Band, 2022



- Transportation and Warehousing
- Retailer
- Information
- Arts, Entertainment, and Recreation
- Construction
- Educational Services
- Public Administration
- Rental and Leasing Services
- Health Care and Social Assistance
- Finance and Insurance
- Professional, Scientific, and Technical Services
- Service type
- Manufacturing
- Wholesaler
- Accommodation and Food Services
- Real Estate
- Utilities
- Administrative and Support Services
- Waste Management and Remediation Services
- Agriculture, Forestry, Fishing and Hunting

We need to realise that it is not just SMEs that use small premises. Blue chip and large companies leased 6% of the space in 2022, while innovative and R&D firms leased 2%. National companies such as Royal Mail, DPD and Amazon are just some of the companies that utilise a network of small to mid-box warehousing in order to serve 'last mile' delivery. It's a vital sector.

This diversity of occupier and their business activities should be celebrated as an integral part of the wider I&L sector.

Favourable outlook for demand

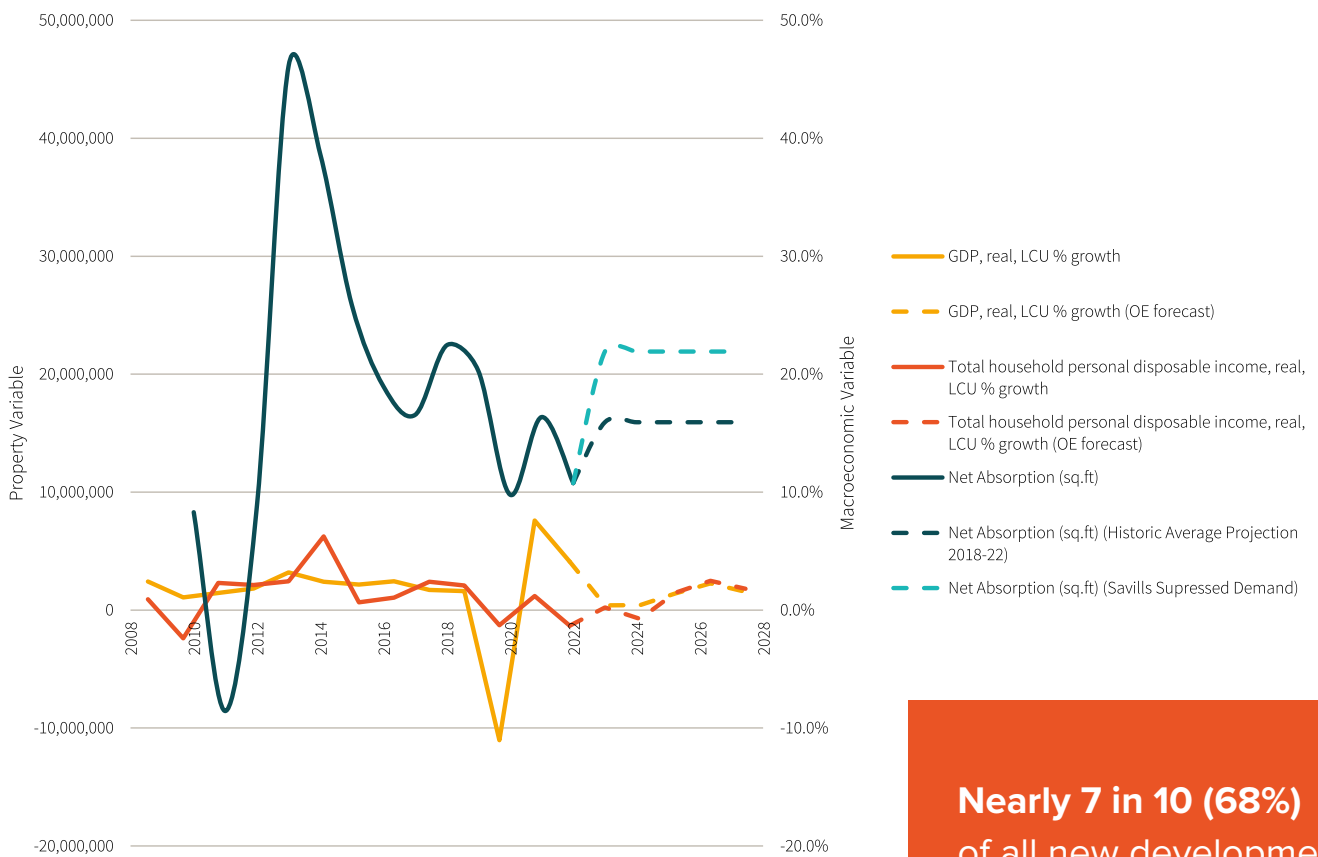
Despite the challenging economic times, both GDP and household income forecasts from Oxford Economics suggest a favourable macroeconomic environment for demand growth from 2025 to around 2026 at about 2.5%. This is a similar level to 2013-2014, that supported the highest demand for the sub-100k sq. ft. market in the last decade.

The challenge will be whether there will be enough land to accommodate demand.

Net absorption is the amount of floorspace occupied minus the amount of floorspace vacated. It gives us an idea of which size categories are most in demand.

Net absorption is predicted to increase as we approach 2025 to 2026. If the supply deficit persists, this will further constrain availability and put upward pressure on rents.

Likewise, if the delivery rate remains on a level similar to that of the last five years (2018-2022), we expect the demand to recover to its average of 16m sq. ft p.a., given favourable macroeconomic projections.



Nearly 7 in 10 (68%) of all new developments, in terms of area, went to the big box sector.

We need positive action from local authorities to grant permission for more small to mid-box warehousing. Regional decision makers, mayors and policy makers already realise the resilience and evergreen nature of the SME sector. It is also diversified, catering for a wider range of businesses across multiple sectors, providing a greater variety of job roles and apprenticeships. There is less risk associated with a portfolio of business types as well.

A photograph showing two men in high-visibility safety vests walking down a long aisle in a warehouse. They are looking at a set of plans or documents held by one of the men. The aisle is lined with yellow and black striped bollards on the left side, and the warehouse structure is visible in the background.

The need to boost long-term employment

The government's focus has been squarely on where people are going to live, not where they are going to work, drilling down on residential land, rather than employment land. We should be building small to mid-box warehousing alongside new residential units. Loss of employment on the high street can be met by jobs in the small to mid-box sector – but right now there is just not enough capacity.

There are over 5.47 million private sector, small and medium sized businesses operating in the UK. With a significant proportion relying on small to mid-box warehousing, we cannot afford to ignore their needs, yet this fragmented sector suffers from not having one, single voice to make its collective case.

Potter Space and Savills believe that local authorities should be looking at the positive impact smaller warehousing has on local economies and rethinking employment data through this lens. If local authorities and enterprise partnerships gave this sector the same priority as the big box sector - considering it as a whole – rather than as fragmented, there is a better business case for development and land release.

There should also be a focus on sites that may not have previously been considered as key places for the development of small to mid-box facilities. Building out smaller warehousing will ensure the quality of property stock is maintained in the I&L sector, rather than smaller businesses being driven towards older or unfit units.

Small to mid-box facilities are better suited to irregular sites, which may not be suitable for big box facilities anyway, as they may be close to residential developments, at the edges of town centres or near transport infrastructure or sensitive areas.

Reimagining small to mid-box workspaces

- Small to mid-box premises are becoming more diverse economic hubs – not just about warehousing, logistics and industrial units. They now include R&D, manufacturing and administration
- Some of the most innovative work is happening in the small to mid-box sector – for example, novel aircraft or drones
- Office co-location is commonplace, on average accounting for 16% of the floorspace in new smaller spaces. It means a greater variety of employment types including higher skilled roles
- Small to mid-box units are also now critical for facilitating last mile operations and therefore need sites on the edges of major urban conurbations. These also offer greater carbon efficiencies

Greener warehousing a priority for small to mid-box builds

The small to mid-box warehouse stock available is often older and can be of lower quality compared to the big-box sector, which have mostly been built in the last five years. The proportion of 'good' quality smaller premises is over seven times lower than for larger premises. This is why the sector needs renewal, and new development land, at pace.

A lot of small to mid-box warehousing stock will fall foul of new Energy Performance Certificate (EPC) regulations, which will come into force over the coming years. The Government has also set a target of lifting the minimum energy efficiency standard for non-domestic buildings to be rated 'B', as part of its target for the UK achieving net-zero by 2050. Targets can certainly be achieved by building new energy efficient, smaller warehousing units.

Right now, businesses are willing to pay an ESG premium for newer, greener properties. It boosts their marketability and returns. Small to mid-box properties with higher EPC ratings attract greater demand, they rent quicker and for longer, with a modest rent premium.

Greener BREEAM buildings also tend to have shorter rent-free periods, i.e. months vacant and months on the market. They also have longer lease terms than the general stock. At the moment a divide is starting to form, with big box creating the lion's share of greener warehousing, while the small to mid-box sector's property stock becomes increasingly older, less energy efficient and more carbon intensive. Potter Space and some of its peers are hoping to change this paradigm through ongoing investment in new builds and refurbishment.

There is an urgent need for investment to build new sustainable units, driving greener efficiencies in every build, as well as a need to refurbish older buildings. Otherwise, businesses using small to mid-box spaces will be disproportionately affected by energy price spikes. They will also have greater carbon footprints in terms of the warehouse space used.

2023 Minimum Energy Efficiency Standard 'E' required

2027 Minimum Energy Efficiency Standard 'C' required

2030 Minimum Energy Efficiency Standard 'B' required

7 x lower The proportion of 'good' quality small to mid-box compared to big-box

Is co-location a potential solution?

One initiative that has considerable potential involves big-box operators working more closely with those in the small to mid-box sector. Collaboration across the value chain could also improve the current outlook for the smaller warehousing sector considerably.

The siting of a variety of sizes of warehouse together on one business park or estate, would certainly be appealing to local authorities and a wider spectrum of business types. This could be achieved by collaborating at every stage of the planning and development process.

As build costs for small to mid-box units can be around 40% higher than big-box, creating co-developer schemes will ensure that developers with different commercial models can operate within their own comfort zones. This should mitigate the commercial barriers which see big-box schemes overshadowing small to mid-box development.

Co-location sites would provide an economy of scale with the developers able to share the costs of the underlying infrastructure required for any site.

After the basic considerations around access, drainage, power etc, the costs could also be shared for the more innovative infrastructure required such as solar, EV charging and water recycling. Such a natural 'supply-chain' ecosystem would provide employment of all types and ensure a thriving micro-economy on the estate. It would also be more resilient, more agile in different phases of the economic cycle and provide greater sectoral diversity.

Smaller firms can benefit from larger firm's sustainability or ESG agendas, for instance through access to local renewable energy sources or EV charging points.

Could co-location of big and small box be the future?

- Promoting the co-location of small to mid-box alongside big-box is the best use of available land
- Co-location means better access to services and logistics support and pools of labour; it also promotes knowledge sharing and innovation in clusters

About Potter SPACE

Home for business

Potter Space owns, develops, and operates 1.6m sq. ft. of industrial and logistics space across 250 acres. With a range of excellent locations, our parks span Ripon, Droitwich, Knowsley, Selby and Ely. We pride ourselves on our customer care and operate at near 100% occupancy with many long-standing partnerships underpinned by excellent customer feedback. Knowsley, Selby and Ely business parks also have successful rail terminals, fully utilised by Potter Space customers.

Potter Space continues to aim for a minimum BREEAM 'Excellent' accreditation on all future buildings, prioritising sustainability, biodiversity, health and wellbeing across all business parks. Providing customers with a 'Home for Business' is the number one priority for Potter Space. It is currently developing across 250 acres to meet demand.

The team at Potter Space discuss Potter Space and the challenges that face the sub-100k sq. ft. market.

Closing Statements

This research shows that the small to mid-box, sub-100k sq. ft, industrial and logistics sector is incredibly valuable to the economy. To put this in perspective, the sector provides nearly twice as many jobs as the NHS - 2.1 million people every day go to work in a small to mid-box space, including 13,000 apprenticeship starts.

In recent years the focus on residential land and big box developments has meant that the small to mid-box sector has been overlooked. Local government and planning departments have focussed on new housing developments, while developers can make better commercial return from big box schemes.

This has created suppressed demand across the small to mid-box sector, which stifles SMEs, small to medium enterprises and micro-enterprises, as well as larger businesses that use small to mid-box units. It holds back economic growth and dampens productivity.

If we have a greater number of small to mid-box schemes this could boost UK business, as well as create a more diverse and resilient local economy.

To achieve this, there needs to be a coordinated approach from Government and local authorities to identify opportunities for small to mid-box development alongside other sectors, which in turn will lead to greater collaboration between a more diverse mix of developers.

Co-location of small to mid-box schemes alongside big box is a large part of the solution. The responsibility for making this happen lies with local authorities who must think outside the box and seek to understand the benefits that mixed schemes can offer to local economies, workforces, businesses and consumers.

In the near future if we see employment land as a strategic asset that needs focus and investment, we can answer some of the UK's productivity challenges and we can grow successful towns and cities by providing the small to mid-box property to enable businesses to thrive. We can nurture a strong and resilient economy by creating collaboration and balance between small to mid-box and larger big box developments, helping businesses to prosper.

The future is bright we just need to be strategic about it.

For an extended version of the report, email info@potterspace.co.uk





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