



THE INCREASED IMPORTANCE OF LOGISTICS DURING COVID-19 AND BEYOND

December 2020



tritaxsymmetry.com

 **TRITAX SYMMETRY**
A TRITAX BIG BOX COMPANY



Report prepared by

Turley
Economics

Introduction

The logistics industry underpins life as we know it

As an industry, logistics has grown significantly in recent years, employing over 1 million people and generating £130 billion Gross Value Added for the UK's economy annually by latest estimates. Logistics is an essential part of the UK's infrastructure, supporting every industry and underpinning the economic output of the UK.

Covid-19 has heightened everyone's dependence upon logistics for the delivery of food, essentials, medicine and supplies to keep businesses trading. Without the logistics industry operating efficiently and scaling up quickly, lockdown would have been even more difficult.

The growth of logistics over the last 6 months has provided a source of economic resilience and opportunity at a time when it is much needed with high and rising unemployment, with a doubling of people claiming out-of-work benefits and economic output forecast to be 12% lower this year than in 2019.

Turley Economics has analysed the vital and enhanced role that the logistics sector has played during the Covid-19 pandemic as part of an ongoing series of research into the position of the logistics market and the economic and social contribution of the sector.

Previous research publications in partnership with organisations such as the British Property Federation and Tritax Symmetry include the 2015 report *Delivering the Goods* and updated *Delivering the Goods in 2020, What Warehousing Where?* in 2019 and the 2020 *Economic Contribution of Logistics in the Northern Powerhouse*.

This report concludes that logistics is a sector of the economy which is relatively quick to adapt, to develop and deliver economic opportunities. This makes it uniquely placed to contribute to the UK's economic recovery in 2021 and beyond.



Delivering the Goods (2015)



What Warehousing Where? (2019)



Delivering the Goods in 2020 (2020)



The Economic Contribution of Logistics in the Northern Powerhouse (2020)



Logistics is a significant contributor to the UK economy

Turley's previous research¹ identified the economic benefits of the sector, which has only enhanced its contribution during Covid-19.



Upwards of
100,000 businesses
In the sector



Contributing
£130 billion GVA
Each year to the UK economy,
boosting economic output
and productivity



**86% growth in
business numbers**
Compared to 21% growth
across all sectors since 2014



Embracing
Net zero carbon targets
Cutting emissions and using
renewables



**Over 1 million
employees**
In the sector



The Enhanced Role of Logistics during Covid-19 and Lockdown

The year 2020 has seen logistics operations move into the spotlight, driven by Covid-19 and the national lockdown which necessitated a shift in the way goods are stored and moved around the country, particularly in reaching their final destination – the consumer.

With stores either being closed or shoppers being unable to get to them, people turned to online ordering as a solution. Ten years of forecast e-commerce growth occurred in the first month of the national lockdown² reflecting the pace of this change in consumer spending patterns which in turn influence warehouse floorspace demand³. Between February 2020 (pre-pandemic) and October 2020, on-line sales values grew from 19.6% of retail sales value to 28.5%⁴.

The logistics sector was quick to respond, with take up of warehouse space over Q1 – Q3 of 2020 at a record high of 38.6 million sqft, with particularly high rates in Q2 and Q3⁵. This already exceeds average annual take-up of new space of 31.9 million sqft over the last five years⁶. Retail is driving take up, accounting for a third of transactions due to strong e-commerce growth, with other occupier sectors that have experienced increased demand during the pandemic (such as 3PLs, parcel carriers and food producers) also contributing significantly to leasing activity. Around three-quarters of take up (74%) relates to new build premises, both build to suit and speculative build⁷.

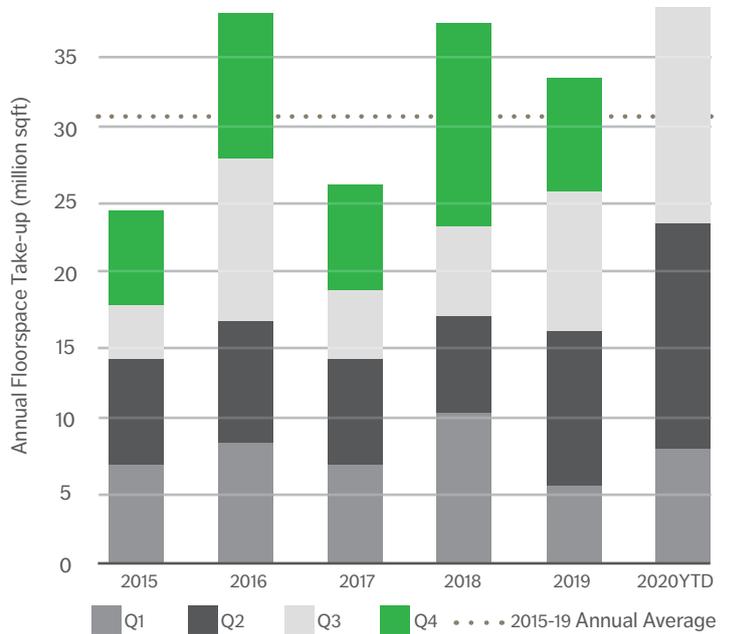


Figure 1: UK take-up of logistics floorspace by Quarter, 2015-2020 YTD

Source: Savills, 2020

“Record annual logistics take-up was achieved by Q3 2020, with further take-up to come in Q4.”

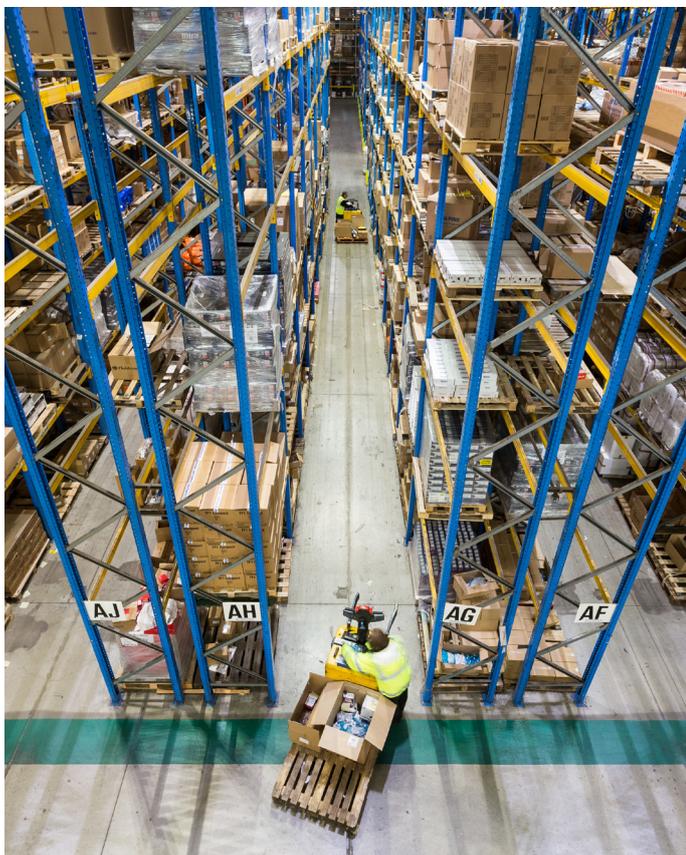
The logistics sector has kept the UK supplied during Covid-19



Supplying homes



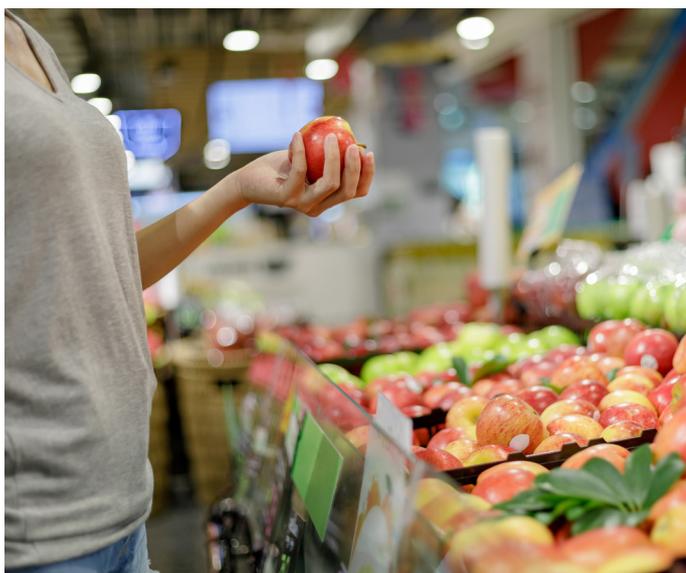
Supplying medicines



The logistics sector's enhanced role in supporting economic activity during this time, not only in stocking our cupboards with essentials at a time when shopping in store is more restricted, but in keeping the economy moving with efficient supply chains, has not gone unnoticed, but nor has its importance been adequately recognised. A clear example of just how important the sector is at this time is the storage and movement of groceries and other goods serving both households' and businesses' needs around the country, and in the future, the distribution of vaccines⁸, which could, for example, increase demand for specialist requirements such as cold storage. The planning system needs to support the continued delivery of space to enable logistics to effectively function as demand for space continues to grow.

Without a fully functioning logistics sector, the opportunity costs would be high. It provides the essential chain to ensure goods are moved from factory or port to high street or home. Without the sector our shelves would be empty and our cars without petrol. We saw the direct impact of this in the first few days of lockdown when consumer retail demand stripped supermarket shelves quicker than they could be re-stocked.

“Covid-19 has simply acted as a catalyst to accelerate existing trends and changes in consumer habits within the sector”



Supplying shops



Supplying businesses



Supporting Economic Recovery

As well as being an essential component of how the UK has been able to continue to operate during Covid-19, the logistics sector has an important part to play in economic recovery.

The Government has made the economic prerogative to support economic recovery clear, with local authorities and city regions encouraged to put economic recovery plans in place, while longer term Government ambitions to support 'levelling up' across the country have been evident since the publication of the Industrial Strategy in 2017⁹.

Unemployment has increased significantly across the country in the wake of the pandemic, with the number of people claiming out-of-work benefits being 121% higher in October 2020 in comparison with October 2019. Since the start of 2020, the retail sector has lost 125,000 jobs. In contrast, the take up of logistics space over Q1 – Q3 is of a scale that would support approximately 54,000 on-site jobs¹⁰.

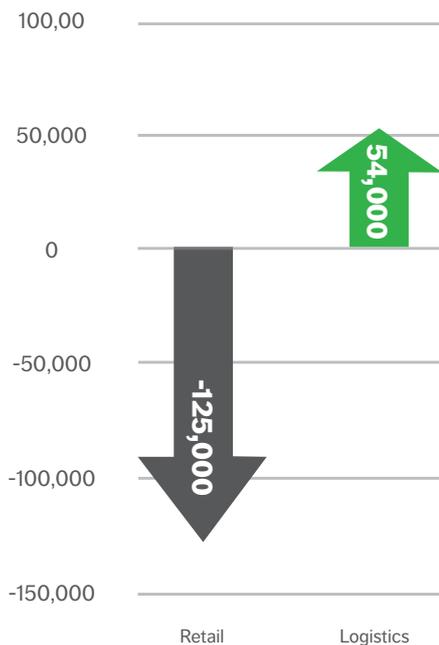


Figure 2: Change in number of jobs, 2020 YTD
Source: Centre for Retail Research and Turley analysis, 2020

“Roles in the sector have diversified significantly since 2006, with the proportion of office-based and managerial jobs having increased significantly”

This growth has the potential to support some of the individuals who lost their jobs in retail, with a number of skills being transferable. Employees in the two sectors have similar qualifications profiles, with around 70% of staff in both sectors having qualifications equivalent to NVQ3 or below. This is not to say that the sector does not require a range of skills – indeed, research¹¹ has found that roles in the sector have diversified significantly since 2006, with the proportion of office-based and managerial jobs having increased significantly over recent years and a corresponding decrease in the percentage of jobs that are on the warehouse floor, with automation being a significant driver. This reflects the role of modern logistics units as integrated business operations - incorporating HQ offices with warehouse operations wrapped around - and is a trend that is set to continue, with survey research published by the CBI suggesting that almost 80% of UK logistics firms expect to increase the number of higher-skilled logistics roles over the coming years¹².

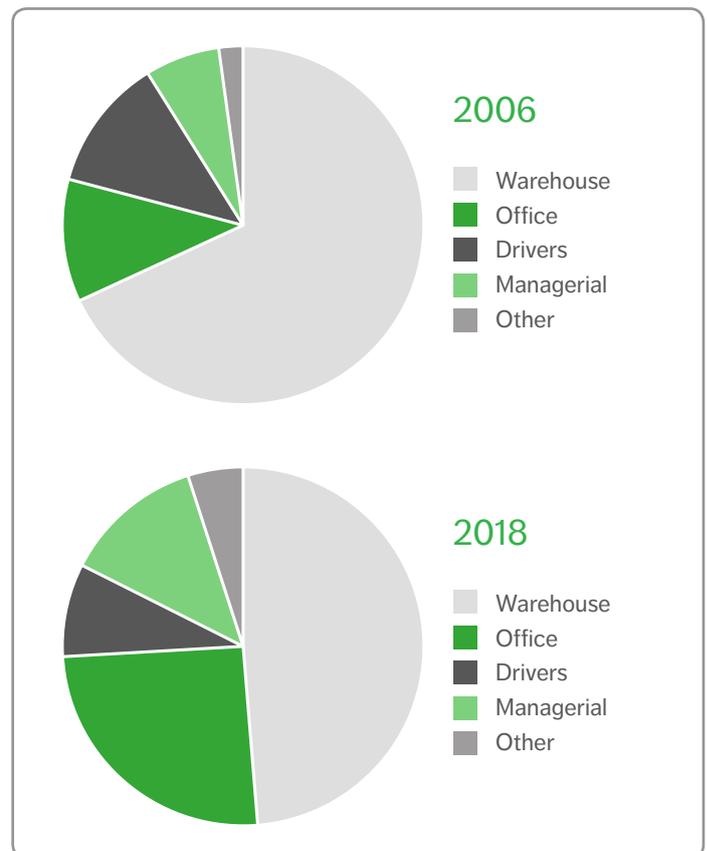
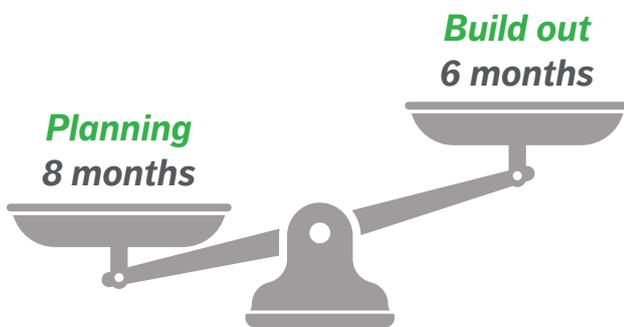


Figure 3: Change in logistics workforce roles, 2006-2018
Source: Prologis, 2019

Generating Economic Benefits Quickly

As a sector which has seen unprecedented growth during lockdown at a time when other sectors have struggled, the logistics sector has a fundamental role to play in supporting economic recovery, and is capable of delivering both substantial construction and operational jobs in a matter of months. Successfully fast-tracked 'build-to-suit' logistics developments can deliver a 500,000 sqft warehouse with integrated office space for business operations within 14 months, comprising an 8-month planning phase and taking just 6 months to build out¹³. A unit such as this could directly support 700 jobs on-site and a further 500 jobs in the wider economy through multiplier impacts.



“Logistics schemes can deliver within 14 months, with time taken in planning often exceeding delivery timescales”

In comparison, the average 100 to 500 home residential site takes around 2.5 years to progress from application submission to permission, with the further lag time between gaining permission and actually breaking soil, followed by average build-out rates of 60 homes per annum, meaning that many benefits are not realised for several further years¹⁴. This is not to say that the housebuilding and logistics sectors are in competition – it is clear that both need to be prioritised to deliver sustainable growth, as highlighted by previous Turley research¹⁵, which estimated that there is 69 sqft of warehouse floorspace for every home in England and highlighted that logistics demand is highest where housing density is greatest. What is clear though is that logistics is relatively quick to deliver economic benefits and provide much needed jobs and prosperity, serving as an enabling sector for all others.

Meeting Environmental Objectives

The sector has also embraced innovations seeking to meet low carbon targets during both the construction and subsequent operation of new logistics units, with a number of Net Zero Carbon Ready developments set to come to market across the country.

“Building back a green and resilient recovery”



Minimising carbon emissions from construction through life-cycle assessment of materials and products;



Promoting energy-efficient and low-carbon operation through photovoltaics, air source heat pumps and 100% LED lighting; and



Funding carbon offset projects

Issues Facing the Sector

Demand is likely to continue, particularly as operators look to build in supply chain resilience to enable them to more quickly respond to unforeseen events. In responding to wider macro-economic issues which may restrict the import of international goods, manufacturers are increasingly looking at near-shoring manufacturing and storage, moving from 'just in time' to 'just in case' solutions. Savills' estimates that this alone could increase demand for warehouse space by 20%¹⁶. Consumer commitment to online retail is also expected to continue – supermarkets report one in five households are now ordering groceries online and expect the majority of this to be retained¹⁷.

The most pressing limiting factor with regards to supporting the continued growth of logistics operations, in relation to both e-commerce and supply chain storage, is the availability of land and premises. Across the country, these are already in very short and diminishing supply, meaning that proactive engagement - with an emphasis on flexibility - will be required between all stakeholders, including local authorities, developers and landowners, in order to realise the potential benefits.

For example, the North West was considered to have 1.45 years of Grade A supply of logistics buildings in 2019 which is likely to have since been eroded to less than 1 year¹⁸, due to 2020's swell in demand and increased need for space. In the West Midlands, a prime logistics location due to its connectivity to the rest of the UK, the development pipeline is 80% smaller than it was a year ago¹⁹.



Conclusion

This report has been prepared to highlight the enhanced role that the logistics sector has played during Covid-19 and its potential to continue to generate lasting social, economic and environment benefits as part of the UK's economic recovery.

Economic impact modelling by Turley estimates that take-up of logistics floorspace in Q2 and Q3 of 2020 has supported **42,800** direct on site jobs and a further **30,600** jobs through supply chain businesses and through the spending of wages. At a time when the UK's economy is faltering, logistics has bucked the trend with the increase in output associated with new jobs equating to **£3.4 billion** and **£211 million** of wider fiscal benefits per annum having been created.

Logistics has helped the UK to be resilient and ensured that household and business needs have been met under unprecedented lockdown conditions.

The logistics sector can continue to create sustainable opportunities and benefits for society as the UK seeks to recover from the Covid-19 pandemic. Specifically this report has highlighted that logistics:

- Is an essential part of the UK's infrastructure
- Underpins the activities of all sectors of the economy; and
- Supports people and households – therefore as more homes are delivered there is a need for additional logistics space, as demonstrated by previous Turley research²¹

In terms of the sector's future potential to assist in recovery, every 1 million sq ft of new logistics floorspace per annum creates **1,400** jobs and almost **£100 million** GVA economic output during construction, and once operational supports **2,400** jobs and generates **£110 million** GVA economic output annually.

These findings are illustrated in the infographics opposite.

How can the Sector be Supported to Maximise its Contribution to Economic Recovery?

We need to maximise opportunities from strongly performing sectors like logistics to maximise job growth and economic recovery **now**.

National, sub-regional and local strategy and policy should fully recognise the role of the logistics sector both in immediate economic resilience and longer term economic recovery.

Specifically we need a planning system that:

- **Recognises the needs of the logistics sector**
- **Enshrines this in National Policy so that land is identified and provided to meet footloose logistics requirements in the planning policy process**
- **Ensures sufficient land is available now to meet the needs of the sector.**



The logistics sector generating economic benefits during Covid-19 and beyond

Supporting economic resilience during Covid-19 (Floorspace taken up Q2 and Q3 2020)



Supporting

73,400

Direct, indirect and induced jobs

In warehouse and delivery operations and in other sectors across the wider economy



Generating

£3.4 billion

GVA

Boosting economic output and growing productivity



Paying

£900 million

Direct wages

To logistics employees annually



Generating

£211 million

Fiscal benefits

Through Business Rates, NI and PAYE annually



Supporting

29,700

Jobs with transferrable skills levels

Enabling employees to move into the sector following job losses in retail

For every new 1 million sqft delivered per annum, additional impacts are generated

Construction Phase



Supporting

1,400

Direct, indirect and induced jobs

In the construction sector and in other sectors across the wider economy



Generating

£98 million

GVA

Boosting economic output and growing productivity



Paying

£25 million

Direct wages

To construction employees



Generating

£5 million

Fiscal benefits

Through NI and PAYE

Operational Phase



Supporting

2,400

Direct indirect and induced jobs

In warehouse and delivery operations and in other sectors across the wider economy



Generating

£110 million

GVA

Boosting economic output and growing productivity



Paying

£37 million

Direct wages

To logistics employees



Generating

£9 million

Fiscal benefits

Through Business Rates, NI and PAYE



Appendix 1: Wider Recommendations

Wider recommendations made by the British Property Federation in 'Delivering the Goods in 2020' remain relevant and are provided below, with minor updates reflecting the latest context:

- **Provision of the right quantify of space in the right locations** - Consideration should be given in Local Plans to ensuring alignment between levels of housing growth and commensurate growth in logistics land and space. Providing enough space for logistics development in locations which match market requirements, such as last mile, while recognising that in some places there will be competing demands for land, will enable customers to be served and industry to operate efficiently and effectively. This should be supported through a streamlined planning system including national planning policy, local land allocations and planning permissions, which is able to support allocations and permissions pace reflective of demand. Existing industrial land should be safeguarded where this is appropriately located, through protective policy interventions such as those introduced in the London Plan.
- **Acknowledgement of the economic, social and environmental contribution of the sector** - Decision makers at all levels must recognise in policy the value of logistics (as part of the wider industrial sector) as an economic contributor, both in its own right and in terms of supporting other sectors and meeting societal demands. This should go hand in hand with the delivery of new housing so as to support a responsive logistics sector to meet need. Similarly, the role which logistics operators and developers can and do play in contributing towards environmental and sustainability objectives including commitment to achieving a low/zero carbon agenda and social value should be acknowledged, particularly when considering how a new scheme can have a positive impact on the local area in terms of creation of community and place.
- **Coordinated infrastructure planning** - This can help ensure the delivery of road, rail, port, energy and digital connectivity to support the industrial and logistics sector. More government support is required around the use of water and rail freight to create a cohesive network to rival road, acknowledging the National Policy Statement on National Networks (NPSNN) already supports an expanded Strategic Rail Freight Interchange network. Compulsory purchase powers should be used where required to facilitate site assembly or land required to deliver associated infrastructure improvements. The role which logistics development can play in delivering infrastructure improvements for wider public benefit should be understood and acknowledged.
- **A joined up approach from government** - A Joined Up Approach from Government - Departments including MHCLG, DfT, BEIS must coordinate their approach to ensure that the skills, transportation and business needs of logistics and the wider industrial sector are met. This should reflect on the central role of logistics as part of achieving aims in the Government's National Industrial Strategy.
- **Building a dialogue with local planning authorities** - Government, industry and local planning authorities must communicate openly regarding the contribution of logistics to local economic growth and support regeneration objectives including as part of achieving Local Industrial Strategy aspirations and delivery of local economic recovery plans, and the Planning Practice Guidance (PPG) should be further strengthened to make it a requirement for Local Planning Authorities to engage with logistics providers. This would facilitate bringing redundant brownfield back into use and utilising appropriate green field sites, which can have a positive impact on a local area and its communities. Where Green Belt reviews are required, authorities should consider the needs for logistics within their evidence base and decision making processes.

Endnotes

- 1 British Property Federation (2020) Delivering the Goods in 2020: The Economic Impact of the UK Logistics sector. Figures quoted in this report have been updated in line with the latest ONS data releases, including UK Business: activity, size & location (September 2020); Business Register & Employment Survey (October 2020); and Annual Business Survey (May 2020)
- 2 Office for National Statistics (18 September 2020) Internet Sales as a Percentage of Total Retail Sales (Ratio - %) – online retail sales grew from 21.9% of total retail sales in March 2020 to 30.1% in April 2020. Pitney Bowes (2019) Retail Expenditure Guide: Covering the 2018 – Based Expenditure Release: 2019/2020 – non-store retail sales as a % of total spending were projected to reach 30.3% in 2030 (see Table 3.4 Non-Store Retail Sales – Projected Market Share)
- 3 British Property Federation (2019) What Warehousing Where? Understanding the Relationship between Homes and Warehouses to Enable Positive Planning
- 4 Office for National Statistics (20 November 2020) Retail Sales, Great Britain: October 2020
- 5 Savills (2020) Logistics Take-up by Quarter
- 6 CoStar (2020)
- 7 CBRE (02 October 2020) Another record-breaking quarter for UK Logistics take-up in Q3 2020 <https://news.cbre.co.uk/another-record-breaking-quarter-for-uk-logistics-take-up-in-q3-2020/>
- 8 DHL (September 2020) Delivering Pandemic Resilience: How to Secure Stable Supply Chains for Vaccines and Medical Goods during the Covid-19 Crisis and Future Health Emergencies

Appendix 2: Methodology

Overview of Approach

Estimates of the economic impact of the logistics sector are based on a robust methodology for calculating net additionality established by Turley Economics. The assessment was undertaken in accordance with best-practice guidance, chiefly the UK Government's Homes and Communities Agency's (HCA, now known as Homes England) Additionality Guide (4th Ed.) and Employment Density Guide (3rd Ed.). Per Million Sqft operational impacts proportionate with Covid-19 Take-up impacts unless otherwise stated.

Covid-19 Take-up and Per Million Sqft Floorspace Operational Phase Impacts

- **Employment** – Logistics floorspace taken up during Q2 and Q3 2020 is based on data supplied by Savills. Full-time equivalent (FTE) employment supported is estimated through application of B8 employment density (in line with the HCA Employment Density Guide recommendations). FTE jobs is converted to workforce jobs through reference to ONS Business Register & Employment Survey (BRES) data regarding the full/part-time employment profile of the logistics sector. An allowance for low-level displacement (in line with HCA Additionality Guide recommendations) is made to calculate net job creation, with an assumption of economic multiplier effects (in line with ONS 2016 Input-Output multipliers for the warehousing & support services for transportation sector) then being made to estimate indirect and induced employment.
- **Wages** – Median wages for logistics employees by Standard Occupation Classification (SOC) are calculated through reference to ONS Annual Survey of Hours and Earnings (ASHE) data. Median wages are then applied to the estimated number of workforce jobs supported in line with the SOC profile for the logistics sector established by the 2011 Census. SOC structures adjusted for Covid-19 Take-up and therefore Per Million Sqft impacts not directly proportionate.
- **Economic output (GVA)** – Average annual GVA generated per FTE UK logistics sector employee is calculated using September 2020 Experian local market forecasts. This is applied to the estimate of jobs. The all-sector annual average GVA generated per FTE workers in the UK has been applied to the number of indirect and induced jobs to calculate the GVA generated by multiplier effects.
- **Jobs with transferable skills** – The proportion of England's logistics employees holding Level 3 Qualifications and below (this serving as an approximation of retail skills requirements)

as their highest level of qualification has been calculated through reference to the 2011 Census. This rate has been applied to the number of workforce jobs supported.

- **Fiscal benefits** – The rateable value per sqm of logistics floorspace was estimated with reference to Valuation Office Agency (VOA) data regarding UK average rateable values for this use, and subsequently applied to the quantum of floorspace. NI and PAYE calculated through reference to HMRC's 'Estimate your take-home pay' online calculator, as applied to median wages for the logistics sector by SOC and estimated number of jobs. SOC structures adjusted for Covid-19 Take-up and therefore Per Million Sqft impacts not directly proportionate.

Per Million Sqft Floorspace Construction Phase Impacts

- **Employment** – The estimated construction cost per sqft of warehouse floorspace in the UK has been sourced from BCIS. The cost of 1 million sqft is divided by the average turnover per construction sector employee in the UK to calculate the direct 'person-years' of employment were it to be constructed during one year, this therefore equating to gross direct jobs. An allowance for low-level displacement (in line with the HCA Additionality Guide recommendations) is made to calculate net job creation and an assumption of economic multiplier effects (in line with ONS 2016 Input-Output multipliers for the construction sector) is then made to estimate indirect and induced employment.
- **Wages** – Median wages for construction employees by SOC are calculated through reference to ONS ASHE data. Median wages are then applied to the estimated number of workforce jobs supported by the construction of 1 million sqft of logistics floorspace in line with the existing SOC profile for the construction sector.
- **Economic output (GVA)** – The average annual GVA generated per FTE UK construction sector employee is calculated using September 2020 Experian local market forecasts. This is applied to the estimate of net construction jobs. The all-sector annual average GVA generated per FTE workers in the UK has been applied to the number of indirect and induced jobs to calculate the GVA generated by multiplier effects.
- **Fiscal benefits** – NI and PAYE calculated through reference to HMRC's 'Estimate your take-home pay' online calculator, as applied to median wages for the construction sector by SOC and estimated number of jobs.

9 HM Government (2017) Industrial Strategy: Building a Britain Fit for the Future

10 Turley Economics (2020) based on Q1-Q3 floorspace take up, application of employment densities sourced from HCA (2015) Employment Densities Guide and conversion of FTE to workforce jobs using Business Register and Employment Survey

11 Prologis (September 2019) Delivering the future: the changing nature of employment in distribution warehouses

12 FTA (2019) FTA Logistics Skills Report: 2019

13 Savills (11 September 2019) Savills Blog: 'Why fast-track 'build to suit' development is the way forward in the race for warehouse space'

14 Lichfields (2017) Stock and Flow: Planning Permissions and Housing Output

15 British Property Federation (2019) What Warehousing Where?: Understanding the Relationship between Homes and Warehouses to Enable Positive Planning

16 Savills (30 September 2020) Increase in UK Manufacturing to Cause Ripple Effect on Warehouse Demand in The Logistics Point <https://www.thelogisticspoint.com/post/increase-in-uk-manufacturing-to-cause-ripple-effect-on-warehouse-demand>

17 Talking Retail (14 October 2020) Grocery Sales Boosted as Consumers Stay Home for Food and Drink

18 Savills (July 2019) Big Shed Briefing

19 Savills (07 July 2020) The Logistics Market in the West Midlands https://www.savills.co.uk/research_articles/229130/302058-0

20 Lichfields (2017) Stock and Flow: Planning Permissions and Housing Output

21 British Property Federation (2019) What Warehousing Where?: Understanding the Relationship between Homes and Warehouses to Enable Positive Planning



Report prepared by



   @tritaxsymmetry

[tritaxsymmetry.com](https://www.tritaxsymmetry.com)

Misrepresentation Act 1967. The particulars are not to be considered a formal offer, they are for information only and give a general idea of the property. They are not to be taken as forming any part of a resulting contract nor be relied upon as statements or representations of fact. Whilst every care is taken in their preparation no liability can be accepted for their accuracy. Intending purchasers must satisfy themselves by personal inspection or otherwise as to the correctness of these particulars which are issued on the understanding that all negotiations are conducted through DTRE and Savills. July 2019.