Leicester and Leicestershire Strategic Distribution Sector Study

Part A Interim Report

A technical report prepared for the Leicester & Leicestershire Housing Planning & Infrastructure Group by:

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1. INTRODUCTION

1.1 *MDS Transmodal and Savills* were commissioned in December 2013 by *the Leicester and Leicestershire Housing Planning and Infrastructure Group (HPIG)* to undertake a study examining the strategic distribution sector in the county. HPIG represents the county's local planning authorities, Leicestershire County Council and the *Leicester and Leicestershire Local Enterprise Partnership (LLEP)* on spatial planning matters. The main objectives of the study are to enable a better understanding of the sector and objectively determine future need, together with managing change and supporting sustainable economic growth. The completed study will recommend a strategy to enhance the area's current competitive advantage in the strategic distribution sector, and it will ultimately inform LLEP plans/strategies and the development of future local plans across Leicestershire[1].

1.2 The study is being undertaken in three phases, as follows

- Part A: Review and Research;
- Part B: Planning for Change and Growth; and
- Part C: Developing a Strategy for the Distribution Sector in Leicestershire.

1.3 This document forms the formal written report covering *Part A* of the study (the requirements of Part A, taken from the study Terms of Reference, are detailed at the end of this document). It essentially forms a 'baseline' position with regards to the distribution sector in Leicestershire, and will subsequently inform Parts B and C of the study. In brief, it covers the following elements:

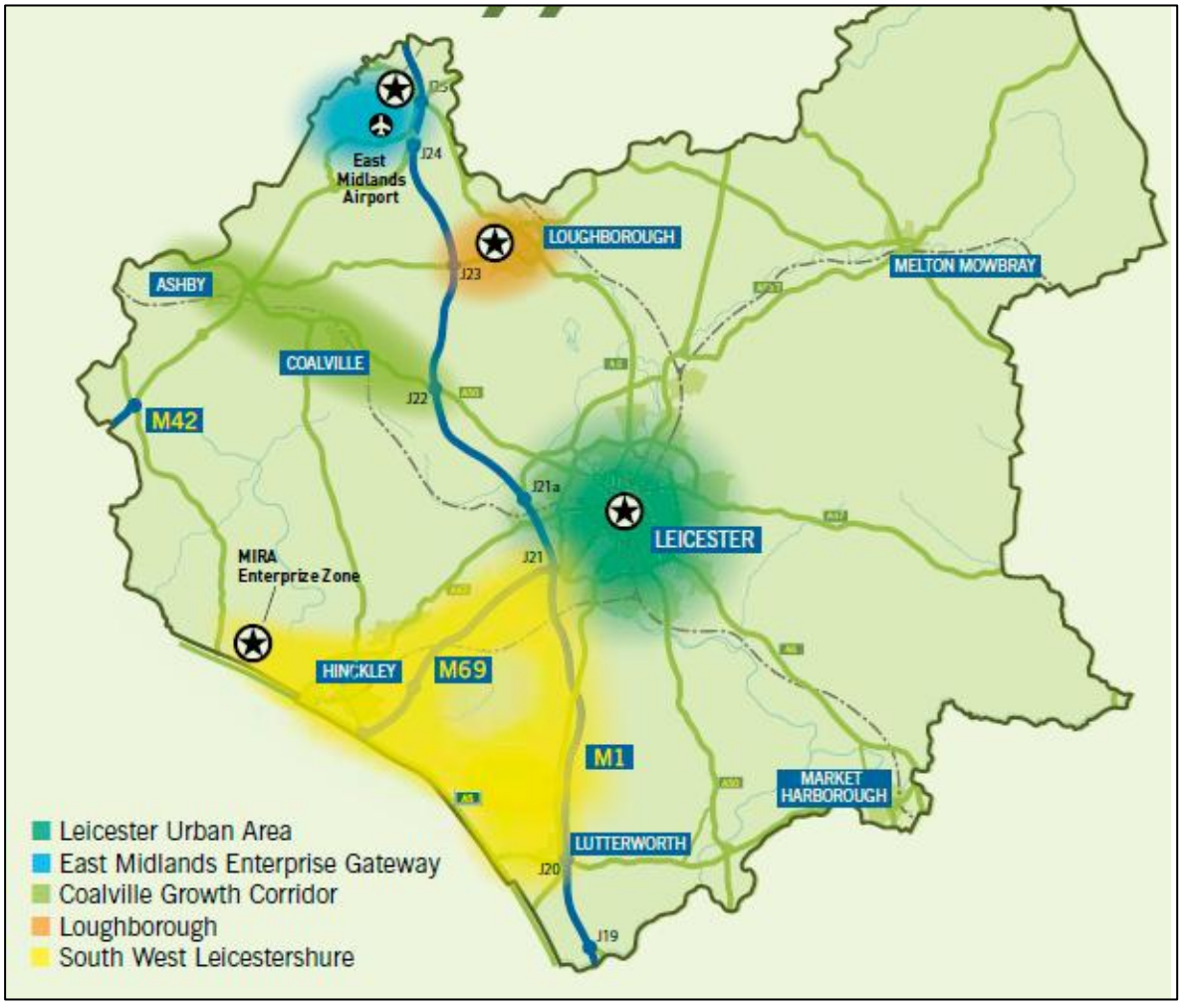
- An overview of the strategic distribution sector, both nationally and in Leicestershire;
- Quantifies existing freight flows to/from large scale warehousing in Leicestershire and the East Midlands;
- Establishes the existing large scale warehousing capacity in Leicestershire and the East Midlands;
- Describes the key locational characteristics enjoyed by commercially attractive logistics sites;
- An overview of the employment in the Leicestershire strategic distribution sector; and
- The current policy context for strategic distribution.

[1] The main study area, the county of Leicestershire, is the same as that covered by the LLEP. In local Government terms, the study area therefore comprises the City of Leicester unitary authority along with those parts of the county administered by Leicestershire County Council and the seven district councils. For ease and consistency, 'Leicestershire' is the term used throughout to refer to the LLEP area and these local authorities on a collective basis. Where relevant, areas adjacent to the main study area are also considered.

1.4 It is important to note that this document is a technical report which will inform the future development of planning policy and economic strategy. The views expressed are those of the consultants and should not be interpreted as policy.

1.5 It is important that this document (and the study as a whole) is considered alongside the LLEP's Strategic Economic Plan 2014-2020 (SEP). The 'ambition' of the SEP is to create an additional 45,000 jobs, lever £2.5 billion of private investment and increase Gross Value Added (GVA) by £4 billion to 2020. In particular, the SEP is promoting five growth areas in Leicestershire, as illustrated on the map below (reproduced from the SEP).

Map 1.1: The LLEP Growth Areas



1.6 Noting that there is a lack of suitable employment land for key sectors (including logistics), one of the key priorities of the SEP is the delivery of infrastructure investment, which can then be used to unlock key development sites and employment land in the identified growth areas. The *East Midlands Gateway Strategic Rail Freight Interchange* is also identified as one

of the four 'transformational priorities' in the SEP. The LLEP's SEP is available to download from the following link: www.llep.org.uk/SEP.

2. THE STRATEGIC DISTRIBUTION SECTOR IN LEICESTERSHIRE

2.1 The main purpose of this section of the report is twofold, namely:

- To provide a brief overview of the logistics/distribution sector nationally, the key commercial players and how supply chains are organised; and
- To undertake an overview of the sector in Leicestershire.

Section 2.1: Background

2.2 *Logistics* and *distribution* are often used interchangeably to refer to the movement and management of the flows of goods and information. This can be contained strategically within an organisation or be part of a complex supply chain.

2.3 The growth in the service industries has fuelled the UK's logistics industry and the creation of a distinct logistics sector; with an increase in distribution requirements and changing distribution patterns. As a consequence, industrial property demand for the UK (and mirrored in the regions) has shifted from factories (B2 and B1c use) towards distribution warehouses (B8 use).

2.4 The logistics market, as it relates to the distribution of finished goods and general cargo (unit load traffic), essentially consists of four different types of organisation or commercial players. These are briefly described below.

1. Manufacturers and producers. The organisations that manufacture/produce finished goods or semi-finished goods/components for input into a further production process.

The production of finished and semi-finished goods in global terms has shifted eastwards, to Eastern Europe and the Far East, particularly China, where labour and other costs are significantly lower. This is at the expense of domestically produced goods. Typical commodities which have shifted eastwards includes clothing, electronics, children's toys and other non-perishable goods (generally high volume but lower value commodities). Cost competitive unitised transport/logistics e.g. deep-sea containerised shipping, accompanied road haulage and more recently domestic rail freight, has also been an important factor driving this process. It has allowed the lower cost benefits of the Eastern Europe/Far East location to be maintained through the supply chain.

Despite this position, British and western European producers still have an important place in the market, particularly with regards to the production of perishable groceries,

beers/wines/spirits and White Goods (Leicestershire being an important food production location).

2. Suppliers and distributors (wholesalers). Traditionally, these organisations had an important position in the supply chain. Effectively, they were the 'interface' between the manufacturers and the retailers (see below), in that they purchased goods from manufacturers (including overseas based producers) before selling them on to the retail sector. This was particularly the case when the retail sector was dominated by small to medium sized players, as these organisations lacked the size to negotiate discounts or have the necessary contacts overseas.

However, the emergence of large retail chain stores has altered this relationship. The larger retailers now deal directly with the manufacturers, including overseas producers, thereby removing the intermediary (and therefore costs) from the supply chain. Given this position, the role of the wholesaler has diminished, with many suppliers/distributors today are simply the British distribution arm of an overseas manufacturer/producer.

3. Retailers. The organisations that sell finished products direct to the general public. As alluded to above, the past 20 years has witnessed the large growth of the major retail chain stores at the expense of small locally or regionally based outlets. In addition, the major grocery retail chains have been expanding rapidly into the non-food sector, for Tesco is now one of the leading clothes and electronics retailers. These large growth rates have been driven by, among other factors, their ability to source directly from overseas manufacturers (see above), together with managing the consequent logistics supply chains efficiently e.g. distribution centre locations, contracting logistics operators. Most of the major retail chain stores have also moved into internet retailing, with products either delivered direct to homes, via transport couriers, or to stores (so called click and collect).

4. Logistics operators. These are the organisations that transport and handle goods on behalf of the manufacturers, suppliers and retailers i.e. the first three organisations own the goods they ship out or receive in, whereas logistics operators are 'custodians' of goods while they are being moved and handled. This sector includes small hauliers, multi-national third party logistics operators (3PLs), shipping lines, ports and the rail freight operators.

2.5 The '*supply chain*' can therefore be defined as the flow of goods from manufacturer to the general public via suppliers, retailers and their distribution centres (see below). Ultimately, it is demand for goods from the general public which drives the supply chain, and in turn generates the need for strategic distribution infrastructure (including warehousing) and creates the commercial relationships which exist between the main players in the market. Given changing conditions in the market as described above, the important commercial players are the manufacturers/producers (particularly those based overseas) and the major retailers, together with their 3PLs who physically transport and handle the cargo on their

behalf. It is these organisations who will dictate future logistics strategy, particularly with respect to the location of distribution centres and inland transport mode. The need for cost effective logistics strategies will be an important contributory factor to the process of maintaining and enhancing competitive positions.

Distribution Centres

2.6 The distributors of retail or consumer type goods generally organise their supply chain strategies around large scale warehouses or distribution centres. Given their fixed nature and the large capital required to develop them, they can be considered as key geographically specific investments at the 'shipper' level. It is therefore important that sites selected for large scale distribution centres are competitive and attractive to the logistics market. There are basically two types of distribution centre when defined by their functions and hinterland.

2.7 *National Distribution Centres (NDCs)* act as inventory holding points, particularly for imported goods, before re-distribution to other stages in the supply chain. They are termed 'national' because they serve the whole of the UK from the one site. NDCs are generally occupied by retailers or their suppliers, particularly importers of electrical goods, clothing and other consumer cargo, who require facilities to consolidate imported goods before re-distribution to either a Regional Distribution Centre (see below) or direct to an end user (retail outlet or domestic household).

2.8 *Regional Distribution Centres (RDC)* are similar to NDCs in that they receive, hold and then re-distribute goods to the next stage in the supply chain, normally multiple retail outlets. However there are a number of important differences. They have a regional hinterland e.g. Yorkshire, Midlands. More importantly their primary role is to consolidate and re-distribute goods in shorter periods of time, rather than acting as inventory holding locations. Many RDCs are effectively a covered 'cross-docking' facility, where inbound 'bulk' homogenous consignments from NDCs are split into smaller consignments and consolidated with other cargo (including goods delivered direct to the RDC) for re-distribution (often in a matter of hours) in mixed full size unit loads i.e. limited or no storage function. Consequently dwell times are much shorter at an RDC. They are therefore normally associated with retailers.

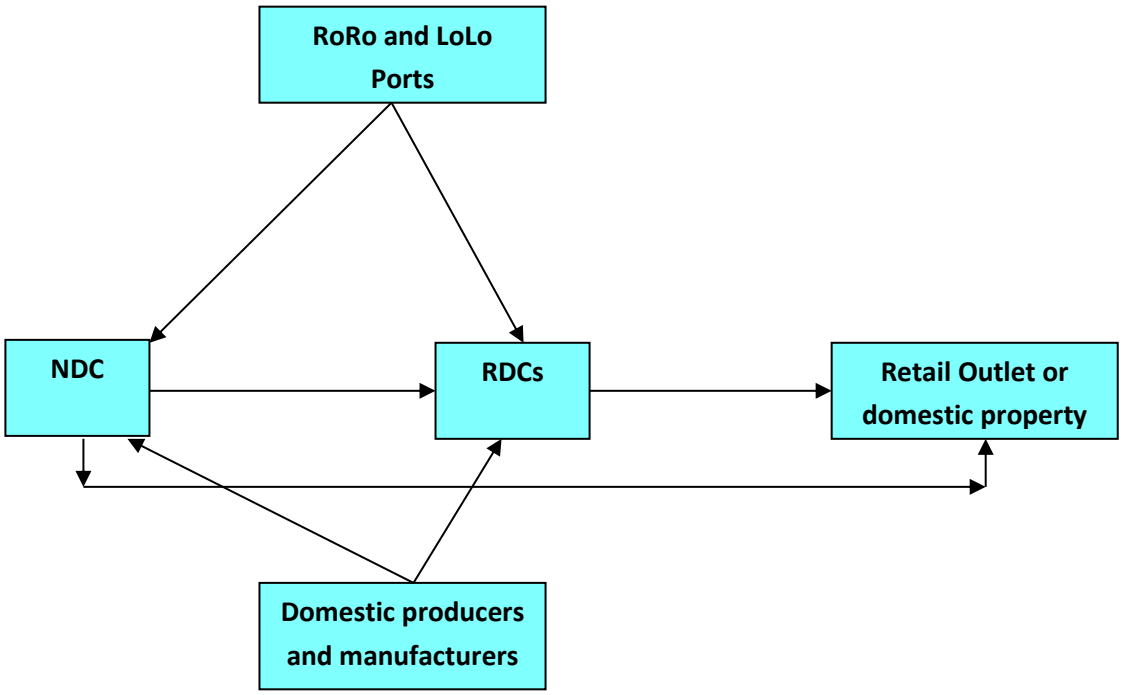
2.9 The actual day-to-day management and operation of NDCs and RDCs is often contracted out to third-party logistics providers, although some facilities are managed in-house by the suppliers or retailers themselves.

2.10 Most warehouse infrastructure in Great Britain has been developed by commercial property developers, such as ProLogis, Roxhill and Goodman, sometimes alongside an associated intermodal terminal development (e.g. DIRFT or Hams Hall). Essentially, property developers raise capital from investors and build new warehouse developments. Revenue is generated

and a financial return made on the investment by leasing the completed new warehouse to a 3PL, retailer or supplier on a long term basis. The key to their business model is consequently the ability to seek planning consent for appropriate warehouse developments at the competitive locations retailers or suppliers require.

Distribution Strategies: The 'Golden Triangle' Model

2.11 With respect to the inland distribution of finished goods and general cargo, the distribution strategy which has been established and adopted by most players in the market over the past 25-30 years is illustrated by the flow diagram below.



RoRo – roll-on roll-off; LoLo – lift-on lift-off (see Glossary)

2.12 Under this strategy, goods which are seasonal (such as out-door/garden equipment, summer clothing etc..) and those which are non-time sensitive and/or have long lead times (e.g. toys, electricals etc..) generally go direct to NDCs, for storage ahead of demand or as buffer-stock etc.. Goods which are time sensitive and/or have short lead times (e.g. perishable groceries) generally go direct to RDCs (for fast turn-around and onward distribution to store).

2.13 Inbound flows to NDCs can be from domestic sources, but as alluded to above are now predominantly from the deep-sea container ports or Dover Straits ports. Around 30% of inland hauls from the deep-sea container ports to NDCs now involve rail freight for at least part of the journey. Outbound flows from NDCs direct to individual retail outlets will

generally only occur when there is sufficient traffic to fill a full size unit load i.e. articulated HGV. Otherwise, goods are shipped from NDCs to RDCs in full loads (HGV or equivalent size intermodal unit), where they split into smaller consignments and consolidated with other cargo (including goods delivered direct to the RDC) for re-distribution in mixed full size unit loads.

2.14 Under this established strategy, the southern part of the East Midlands region became the preferred location for large scale NDCs. This was for three main reasons, namely:

- It was broadly central to the major domestic production sites, the deep-sea and Channel ports (for imported cargo) and RDCs in other regions (the next stage in the supply chain).
- The release of large competitive sites by local authorities for B8 use during the 1980s which were close junctions on the M1/M6. This, combined with the above reason, meant that most inbound or outbound cargo movements could be undertaken within 4.5 hours drive time, this being half a HGV driver's daily driving limit. Consequently, a HGV could round-trip within a driver's shift (enabling a HGV to undertake at least two round-trips over a 24 hour period); and
- Historically, relatively low road haulage costs (in turn driven by low fuel costs) and competitive labour rates.

2.15 The combination of these three factors meant the southern part of the East Midlands region became (from the 1980s) the competitive 'location of choice' in both supply chain cost and performance terms when sourcing and distributing on a national basis. The area became known as the '*golden triangle*'[2]. A significant proportion of the floor space developed in the East Midlands is therefore serving a national rather than regional hinterland, and as demonstrated by the analysis in Section 4 the region has attracted a quantum of floor space significantly above that which its wider economy would suggest. Also, as NDCs are predominantly undertaking a stock-holding role, their overall size tends to be larger when compared with RDCs where dwell times are much shorter (i.e. more floor space is required to undertake the storage function). This is also reflected on the analysis in Section 4, which shows that the mean size per unit of warehouses in the East Midlands is significantly above the national average.

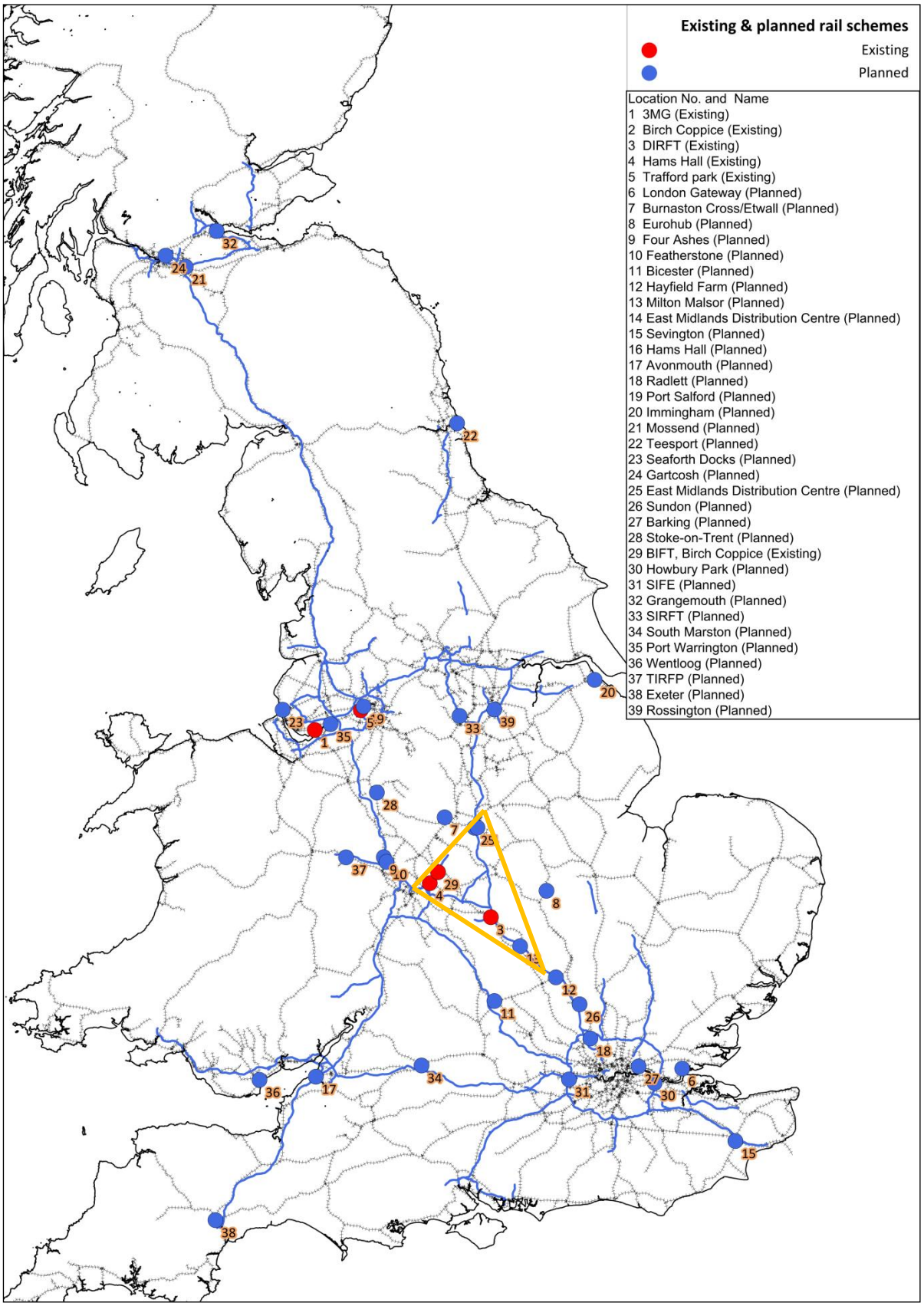
2.16 In contrast, the preferred location for large scale RDCs is close to the main conurbations of Britain, as this is where the main end-delivery points are located. Being in such a location allows the efficient operation of HGV equipment, thereby minimising re-distribution transport costs. This explains why property developers seek to develop sites and retailers

[2] There is no one standard recognised definition of the 'golden triangle'. It may be referred to as the area bounded by the M1, M6 and M69, albeit that others consider it to be a larger area broadly enclosed by Milton Keynes, Birmingham and north Leicestershire (along the M1 and M6 corridors). This study has taken the broader definition, and this is reflected in Map 2.1 below.

occupy warehouse units on what can be regarded as 'expensive real estate' close to urban areas.

2.17 Most NDCs to date have located on non rail-linked sites e.g. Magna Park Lutterworth close to M1/M6. A more recent development has been the establishment of rail-linked sites in the golden triangle. The three (current) rail-linked sites in the golden triangle are DIRFT, Hams Hall and Birch Coppice. The development at Castle Donington (East Midlands Distribution Centre) is currently being developed. Map 2.1 below shows the broad definition of the golden triangle along with the location of existing and planned rail-served strategic distribution sites nationally.

Map 2.1: The 'Golden Triangle' and Existing and Planned Rail-linked Strategic Distribution Sites Nationally



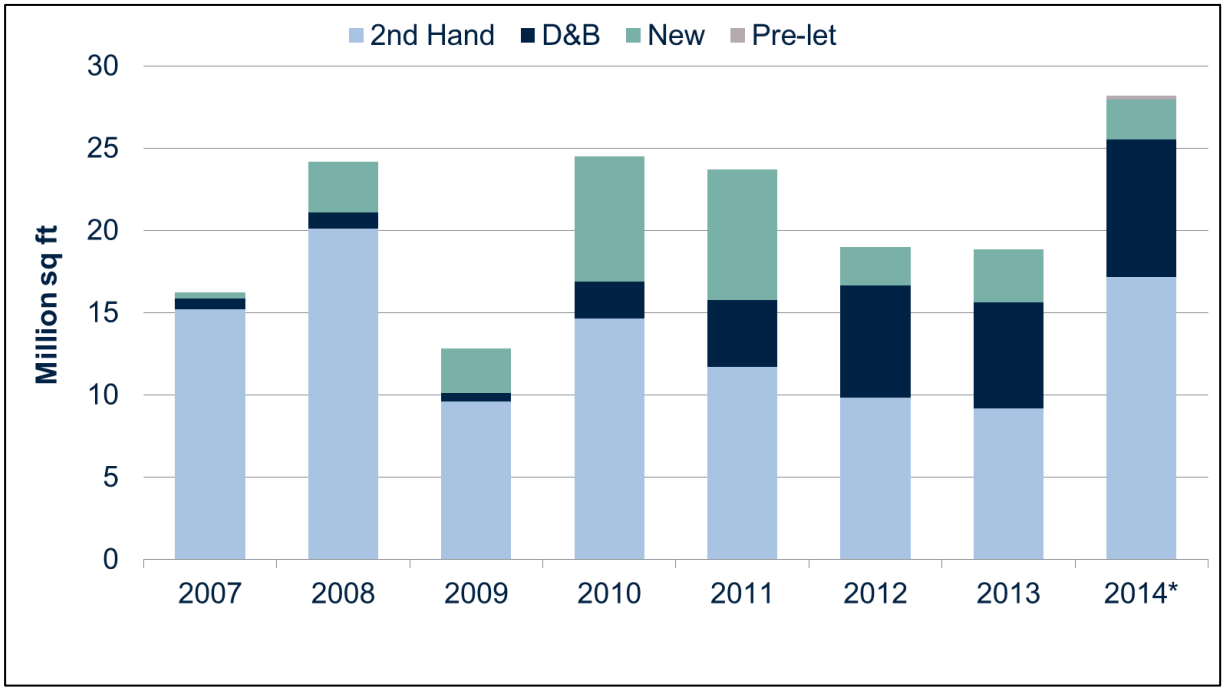
Section 2.2: Current Market Overview

Take-up

2.18 Take-up of large scale units to the end of 2013 totalled approximately 2.79 m sq m (30.1 m sq ft), up 32 % on 2012 figures; circa 60% of this was second hand space partly as a result of the continued lack of Grade A availability across the country. Whilst funding and economic conditions remain uncertain Savills expect to see an increase in demand from more than just the largest retailers and third party logistics providers (3PLs) in the final quarter. The highest take-up of 0.5 m sq m (5.6m sq ft) occurred in the North West with the next highest at (0.49m sq m) 5.3m sq ft in the East Midlands. Regional take-up ranking below these was Yorkshire and the Humber 0.47m sq m (5.1 m sq ft), West Midlands 0.45m sq m (4.9m sq ft), Scotland 0.22m sq m (2.4m sq ft), South East 0.18m sq m (1.9m sq ft), Wales 0.13m sq m (1.4m sq ft), South West 0.11m sq m (1.2m sq ft), Eastern 0.08m sq m (0.9m sq ft), Greater London 0.08m sq m (0.9m sq ft) and North East 0.05m sq m (0.5m sq ft).

2.19 Across the UK, developers and investors are seriously considering commencing on speculative schemes for the first time since 2007/8 in prime locations as pent up demand continues to be unable to be met by the current standing stock. Take-up is still dominated by the 3PLs and largest retailers, with over 90% of all deals done in 2013 being to businesses falling into one of these two categories.

Graph 2.1: Take-up from 2007 to 2014 (2014 being January to November)



D&B: design and build, New – Equivalent to 'Grade A'

Table 2.1: Take-up by Region 2013

Region	Take Up 2013		Percentage of Total UK Take Up
	Million sq m	Million sq ft	
Greater London	0.07	0.8	2.8%
South East	0.18	1.9	6.5%
South West	0.11	1.2	4.1%
Eastern	0.01	0.09	0.3%
East Midlands	0.50	5.4	18.6%
West Midlands	0.45	4.8	16.5%
Yorkshire and the Humber	0.46	4.9	16.8%
North West	0.51	5.5	18.9%
North East	0.06	0.6	2.1%
Scotland	0.23	2.5	8.6%
Wales	0.13	1.4	4.8%
Total	**2.70**	**29.09**	**100%**

Source: Savills

2.20 Online sales currently account for just 11% of total sales in the UK, and M&S and John Lewis' recent deals are good examples of how the UK's biggest retailers are gearing up to increase their online offering. As highlighted in Savills recent report *'E-tailing and the impact on Distribution Warehouses*' (appended) this domination will continue, with Savills predicting that 4,645,150 sq m (50 million sq ft) of space will be taken by retailers alone in the next five years as the full force of internet retailing is felt. M&S are currently reducing their number of warehouses from over 100 properties to just three mega-sheds. They have moved their website in-house (it was previously outsourced to Amazon) and now offer next day delivery. These changes have resulted in a 30% increase in online sales demonstrating the growth that's still in online retail sales.

2.21 The growth in online sales Average Weekly Spend over the past 5 years is shown in the table below.

Table 2.2: Average Weekly Spend 2008-2013

Year	2008	2009	2010	2011	2012	2013
Average Weekly Spend	£264.58	£340.76	£407.31	£480.89	£554.4	£628.22

Source: ONS

Availability

2.22 Availability across all size bands (to include small units up to 10,000 sq ft; medium units from 10,001 sq ft to 49,999 sq ft; mid 'box' from 50,000 to 99,999 sq ft and large scale/distribution warehouses over 100,000 sq ft) and across all regions has become severely restricted for Grade A space in prime locations which now represents less than 10% of all available stock. The North West has just 5% vacancy rate and just one Grade A development with Units 1 and 2 at Lancashire Business Park set to be completed by late summer. In terms of good quality second-hand space there is limited. Comet's 43,820 sq m (471,698 sq ft) former unit, XL on Statham Lane, is currently the largest available space.

2.23 The East Midlands has a relatively good supply of Grade A buildings with 10 units over 100,000 sq ft on the market at the end of 2013. Take up in the region was dominated by the logistics sector which accounted for circa 48% of all take up over 2013.

2.24 The South East has seen plenty of activity with the recent deals to Parcelforce and strong interest in the remaining Grade A units in the sub 18,580 sq m (200,000 sq ft) range. Yorkshire has slightly more units than the South East and North West which are the regions suffering the most chronic shortages. Yorkshire could accommodate occupiers looking for greater than 18,580 sq m (200,000 sq ft) in and Grade A units are available at LPP Sheffield, Sherburn 330, SIRFT and Victor and Valiant in Doncaster. Space now coming to the market is letting extremely quickly with Parcelforce's letting in Beckton, of the former LOCOG unit, an excellent example.

2.25 Stock that has stood empty since prior to the downturn has let recently. Examples include The Duke in Staffordshire recently let to Clipper to fulfil a Super Group contract, The Campbell Centre in Stoke that let to WRS and the Blue Planet letting to JCB. Although there has been a significant rise in Design and Build, at the other end of the market some occupiers need 'oven ready' space and are unwilling to pay the premiums attached to pre-lets. Therefore whilst Design and Build take-up is expected to increase, the second-hand market will continue to play a pivotal role and good quality second hand space in prime locations will continue to let in a very short time, as has been seen over the last 12-18 months.

Table 2.3: Current Availability of Grade A and Second Hand Large Scale Distribution Units by Region

Region	Availability		% Total UK Availability	% of Total Regional Stock (All Industrial)
	Million sq m	Million sq ft		
Greater London	0.12	1.25	2%	9.5%
South East	0.27	2.9	4%	7.1%
South West	0.36	3.9	5%	6.1%
Eastern	0.28	3	4%	5.8%
East Midlands	0.65	7	10%	4.1%
West Midlands	0.83	9	13%	16.5%
Yorkshire and the Humber	1.11	12	17%	No data
North West	1.5	16.5	23%	8.1%
North East	0.39	4.25	6%	8.0%
Scotland	0.56	6	8%	12%
Wales	0.56	6	2%	4.2%
Total	**6.63**	**71.8**	**100%**	

Source: Savills

Investment

2.26 Current sentiment for the industrial sector is extremely good with strong demand across the entire quality spectrum for both multi let estates and single let warehouses. Trading volumes throughout Quarter 1 2013 were relatively low at approximately £320milllion due to supply constraints with little stock being traded as investors sought to retain industrial ownerships.

2.27 Quarter 2 saw an increase with around £600million traded including Prologis' acquisition of a £247 million portfolio from London Metric. Strong demand against constrained supply has created increased values as investors are willing to see lower returns in recognition of a relatively low risk investment and potential rental growth. Distribution warehousing is the top performing Investment Property Databank sub-sector based on total returns so far in 2013. Against an improving occupational story the sector is considered defensive offering relatively high income returns, low obsolescence, above average lease lengths without the rental volatility suffered by offices and retail.

2.28 The sector is seeing increasing overseas interest as “Logistics” becomes established as a recognised global asset class driven by growing awareness of defensive characteristics and

favourable risk adjusted returns. Blackstone continue to be the leading overseas investor into UK logistics accounting for circa 20% of all acquisitions in 2012. Also, interest from Middle East (Gatehouse, 90 North), Russia (Delin Capital), North America (Chambers Street, Cabot) and Asia (Employer's Provident Fund of Malaysia). Overseas capital is also becoming indirectly exposed to the sector via investments in Prologis (Norges – circa £2billion) and Gazeley (Brookfield – circa £370 million).

2.29 An ongoing trend amongst UK based investors is acquiring units let on shorter leases (sub 10 years) which offer greater returns on capital (7.5%+) where there is potential for the tenant to remain in occupation beyond the term of the existing lease. Returns have reduced by between 25-100 basis points with the greatest movement shown by short income investments. These were considered relatively cheap to acquire and confidence in their ability to be re-geared or re-let has risen. Consequently returns have changed from 9% net initial yield (NIY) 2 years ago to sub 8% for the best stock.

2.30 Distribution offering "middle dated" income typically of around 10 years has also experienced a reduction in returns achievable from 7.5% - 8% to now stand at 7% to 7.5%. The availability of long dated income of 15 years plus is becoming rare, which reflects a lack of recent speculative development and reluctance from occupiers to commit to such lengthy terms. This market has been driven by prelets to occupiers such as The Co-op, Marks & Spencer, John Lewis, Brake Bros and Travis Perkins.

2.31 Long dated income is extremely sought after from UK institutions, private and overseas investors, attracting yields of between 5.5% to 6.5%. with premium prices achieved for index linked leases. Moving forwards, we expect prices to increase through 2014 as significant capital seeks exposure to the sector, far outweighing the availability of suitable product.

2.32 2013 was a strong year for large scale distribution units with confidence boosted by the increase in take up and growing occupational demand. The shortage of Grade A space is likely to lead to an increase in speculative development and upward pressure on rents in key regions as well as an increase in institutional investment in second hand stock.

Key Data Summary

Occupier Market

- Grade A / new supply (over 100,000 sq ft): 1.6m sq m (17.3m sq ft)
- Take-up of all grades of large scale distribution units to end 2013 was circa : 2.7 sq m (29.09 sq ft) (less than 10 % of this was Grade A stock)
- Five year average annual take-up is 1.9m sq m (20.7m sq ft)

- The top rent achieved in 2013: £9.32 per sq ft - DX Network Services Limited at Units 2, 3 & 4, Colnbrook Freight Centre (100,000 sq ft+) second hand building Heathrow

Investment Market

- Returns on large scale distribution units - Long term (c. 15 years) 6%; Medium term (c. 10 years); 7% Short term (c. 5 years) 7.75%.

Key Deals

- 28,920 sq m (311,282 sq ft) at Merlin 310,Trafford Park purchased by Henderson for £19.7m (7.10% NIY) from Aviva and let to TDG (UK) Ltd, lease expiry October 2017.
- 51,710 sq m (656,603 sq ft) at Argos Distribution Centre, Bedford purchased by London Metric for £40.0m (7.00% NIY) from a private investor and let to Argos, lease expiry December 2022.
- 102,190 sq m (1.1m sq ft) at Units 2 & 3, Brookfields Park, Manvers Way, near Rotherham purchased by Legal & General for £86.68m (5.5% NIY) from Tritax and let to Next Group Plc for 25 years from purchase completion.
- 62,070 sq m (668,918 sq ft) at Gazeley's Milton Keynes distribution park bearing their Magna Park brand name purchased by Aviva for £76.5m (4.85% NIY) from Gazeley and pre-let to John Lewis for 30 years from practical completion.

Outlook

2.33 Improving market conditions and online retail growth will see increased demand for prime logistics space. Demand over the next 12-18 months will remain strong for prime logistics space, with the biggest online retailers continuing to fuel the demand. Rents will rise and yields will fall for the best space.

2.34 The problem as alluded to earlier is that at the moment there is not enough high quality warehousing to satisfy the demand and so retailers are holding off taking space and in some cases looking to acquire on a Design and Build basis. Despite this lack of currently available Grade A space, it is anticipated that take-up will continue to increase throughout 2014 with returning consumer confidence ensuring the retailers come back to the market to satisfy growing demand.

Section 2.3: Leicestershire Overview

2.35 There is a strong manufacturing and mining heritage in Leicestershire but in line with national and regional trends, the logistics sector now dominates in terms of property take-up and employment. Parts of Leicestershire benefit from excellent accessibility to the national road

network; it is central to many production sites and there has been good availability of large sites close to motorway junctions. In addition to this the county has a good supply of labour.

2.36 Prime locations for B8 development are located to the south of the East Midlands region in Northamptonshire, within Leicestershire and along the A14 Corridor (e.g. Corby). Locations with the best transport links are favoured by occupiers and attract the highest levels of demand. However, this falls away sharply as distance from key road junctions increases. The prime locations are those areas most accessible to the M1 Corridor (Castle Donington, East Midlands Airport and Kegworth, to the North; Leicester, Lutterworth and Hinckley to the south of the county). These areas benefits from very good road linkages and connections to the major conurbations of Nottingham, Derby, Leicester, Northampton and Birmingham.

2.37 We have considered key locations for large scale distribution units in excess of circa 9,300 sq m (100,000 sq ft) for each district within Leicestershire.

North West Leicestershire

2.38 North West Leicestershire (population of approximately 93,500 (Census 2011)) benefits from good accessibility to the national road network with the A42 running through the district providing links to the south via the M42 and the north via the M1.

Key Schemes/Sites

Ashby-de-la-Zouch

2.39 Ashby-de-la-Zouch is positioned centrally within North West Leicestershire and benefits from good accessibility to the regional road network, being located at Junction 13 of the A42 and at the junction of the A511, which links Burton upon Trent to the east and Coalville to the west. Employment areas are focused to the north east of the town, at the junction of the A42 (Nottingham Road) and to the north at the junction of the A511 with Smisby Road.

Flagstaff Industrial Estate

2.40 Flagstaff Industrial Estate is located north of Nottingham Road adjacent to the A511 which gives good access to Junction 23 of the M1 at 13km to the south west. Occupiers include United Biscuits (McVitie's) who occupy a 30,140 sq m (324,389 sq ft) unit on a site of 21.54 acres. Other occupiers on the Estate include Trellborg Wheel Systems who occupy 13,010 sq m (140,000 sq ft.) There is neither land available for additional development nor space available on the estate.

Ashby Business Park

2.41 Ashby Business Park is a high quality office park situated to the south of Nottingham Road. Office occupiers include Siemens and Alstom. William Davis control a site of 4.05 ha (10 acres) net to the west of Coalfield Way, which is allocated for employment development in the NWL Local Plan. Outline planning permission was granted in 2007 for 20,156 sq m of B1/B8 development, with a limit of 9,100 sq m of B8 use. The planning permission has lapsed and the site is subject to a new application for 20 B1/B8 units, ranging in size from 800 sq m – 3,000 sq m with a total floor space of 20,156 sq m. The application is in outline but with full planning permission being sought for 9 of the units on the northern part of the site. A site directly to the west has planning permission for residential development and this will also impact upon the types of occupiers that will be suitable at Ashby Park. In light of the planning context of the site and surrounding proposed uses, it is likely that B8 development here will be targeted at the local market, with a focus on B1 offices and light industrial. The site is being marketed as being available for Design & Build B1/B2/B8 units, ranging from 464 sq m – 7,897 sq m.

G-Park

2.42 G- Park is located to the east of the A42 and south of the A511. The site is owned by Gazeley in joint venture with UK Coal and extends to 34.8ha (86 acres). The site has planning permission for up to 78,968 sq m (850,000 sq. ft) of rail-linked distribution space, benefiting from an existing rail connection to the Leicester to Burton freight line. The characteristics of this site mean it would appeal to regional, and potentially some national distribution centres. However, the proposed route of HS2 Phase 2 runs through this site and it is therefore probable that the flexibility of the site will be severely constrained.

Ivanhoe Business Park

2.43 Ivanhoe Business Park is situated off Smisby Road, to the north of Ashby-de-la-Zouch. The Park extends to 11.7ha gross (29 acres) in total and is controlled by Clowes Developments. Design and Build opportunities are available here from 929 - 15,794 sq. m (10,000 - 170,000 sq. ft) A range of smaller terraced units have been developed speculatively, with further proposed ranging from 4,500 sq. ft – 8,750 sq. ft. The developable land at the Business Park extended to approximately 8ha (c. 20 acres).

2.44 Other secondary accommodation can be found on Dents Road. The former Howard Tennens unit is available here. This unit extends to 1,527,090 sq m (141,870 sq Ft) and is available on flexible terms at a quoting rent of £0.99 per sq ft.

Bardon[3]

2.45 Bardon's strategic location, approximately 3km to the west of Junction 22 of the M1 via the A511, has resulted in a concentration of high quality employment floor space. There are 13 large scale distribution units located here.

Interlink Park

2.46 Interlink Park, a Wilson Bowden development, is home to a number of national occupiers including, Bunzl, Waitrose, Laura Ashley, Volvo and Brantano. Units are of a high specification and rents are circa £5.25 - £5.75 per sq ft.

2.47 There are no second hand large scale distribution units available although Link 73, a 6,820 sq m (73,408 sq ft) unit is currently vacant and on the market.

2.48 On Prime Link , a 2.75ha (6.8 acre) site located on Interlink Park, to the south of Beveridge Lane, Wilson Bowden are offering Design & Build opportunities from 1,394-12,077 sq m (15,000-130,000 sq ft). The site has planning permission for B1, B2 and B8 use.

Maximus 22

2.49 Maximus 22, a 5.87ha (14.5 acre) site, is being marketed at the junction of Beveridge Lane and West Lane in Bardon. The site has outline planning permission for up to 23,226 sq m (250,000 sq ft) of B1/B2/B8 floor space. Quoting rental is £5.25 per sq ft.

Interlink West

2.50 Proposals for significant new employment development at Interlink West are in the pipeline. Paragon (Coalville) Limited, working with developer, Graftongate, has submitted an outline application for 25ha (62 acres) net of employment development, to the south of Beveridge Lane between Bardon and Ellistown. Up to 120,000 sq m (1.3 million sq ft) of B2/B8 floor space is proposed with B8 units up to 330,000 sqft (30,650 sq m), as well as infrastructure works, including improvements to Junction 22 of the M1. The planning application is yet to be determined. The proposals form part of the South East Coalville Urban Extension.

Coalville

2.51 Coalville is the principal town in NWL, located approximately 7.25km to the west of Junction 22 of the M1 and 7.25km to the east of Junction 13 of the A42(M) at Ashby-de-la-Zouch. It is therefore not as accessible from the national road network as other locations within NWL (e.g. Bardon, Ashby). Demand for employment space in Coalville will therefore be predominantly limited to local occupiers with some regional demand.

[3] A small part of the site is located in Hinckley and Bosworth

Stephenson Way

2.52 The best quality premises offered in Coalville are to the south of the A511 (Stephenson Way), which provides links to Ashby and the M1. There is one large scale distribution unit here, providing 13,190 sq m (142,000 sq ft), located adjacent to the A511 and occupied by Hormann UK Ltd.

2.53 There is no consented land currently available for B8 development in Coalville and no second hand large scale distribution units available.

Measham

2.54 Measham is located to the south of Ashby-de-la-Zouch with good access to the motorway via the A42 (M) which joins the M42 at Junction 12.

Westminster Industrial Estate

2.55 Employment premises can be found on Westminster Industrial Estate to the south of the A42 off Tamworth Road. British Car Auctions occupy a significant site on Tamworth Road and there are a range of other units across the Industrial Estate. Other occupiers include A&B Produce. Measham 142, a unit of 13,225 sq m (142,358 sq ft) was sold to Wolseley in September 2013 at a price reflecting c. £35 per sq ft.

2.56 There is no consented land currently available for B8 development in Measham and no second hand large scale distribution units available.

Castle Donington

2.57 Castle Donington is located to the north of East Midlands Airport and is very accessible to the M1 corridor via Junction 1 of the A50. Junction 24A of the M1 is circa 4km to the north east of the town. The town's prime location means that it attracts demand for national distribution centres, as well as regional and local demand.

2.58 *East Midlands Airport* is a major economic draw in the district and region. The airport contains over 218 acres of commercial property, including a 17,094 sq m (184,000 sq ft) cargo portfolio, in addition to a further 66,424 sq m let on ground lease arrangements. The airport is home to a mix of aviation businesses. Major cargo operators at the airport include DHL, Royal Mail, UPS and TNT. In addition, Pegasus Business Park is home to office occupiers such as Price Waterhouse Coopers. The Park extends to 26ha with circa 15ha still available for development. All new development within the boundary of the Airport is limited to airport operational uses only.

2.59 *East Midlands Distribution Centre (EMDC)* is located approximately 3km to the north of East Midlands Airport, to the north west of Castle Donington. The scheme is very accessible to the

national road network. The site also benefits from a dedicated rail link. The site is controlled by Clowes Developments and is targeted at National and Regional Distribution Centres. However as a 40ha site with no potential for expansion it may be considered too small to be classed as a Strategic Rail Freight Interchange (SRFI, as defined by national policy).

2.60 Recent take-up of large scale distribution units at EMDC include a leasehold bespoke unit of 83,850 sq m (902,575 sq ft.) completed for M&S in December 2011 on a 24.3ha site, formerly home to the Castle Donington Power Station. The rent achieved was £4.68 per sq ft.

2.61 There are 20.39ha (50.38 acres) remaining at EMDC. D&B opportunities are available from 2,787 sq. m – 50,911 sq m (30,000 sq. ft – 548,000 sq. ft) with a total floor space capacity of 120,774 sq m (1.3 million sq ft). There are no existing units available at EMDC. Rents are in the region of £4.75 - £5.25 per sq ft.

2.62 Willow Farm Business Park is located to the north of Castle Donington, approximately 2.4km from J24A of the M1 and less than a mile from the A50. Occupiers here include Toyota Tsusho and Ceva Logistics.

Kegworth

2.63 Kegworth is extremely well located being adjacent to the M1 and close to East Midlands airport.

2.64 Cott Beverages occupy an 39,480 sq m (425,000 sq ft) unit in Kegworth adjacent to the A6, approximately 1km south east of Junction 24 of the M1.

East Midlands Gateway

2.65 Roxhill's Development Consent Order (DCO) application for a SRFI next to J24 of the M1 (and to the north of East Midlands Airport) was accepted for examination (by the Planning Inspectorate) in September 2014. In brief, it will comprise:

- An intermodal freight terminal accommodating 12 to 16 trains per day and trains of up to 775m long;
- Up to 557,414 sq m of rail-served warehousing;
- A new rail line connecting the terminal to the Nottingham to Birmingham Freight only line;
- New road infrastructure and works to the existing road infrastructure;
- Structural earthworks to create development plots and landscape zones;
- Strategic landscaping and open space, including alterations to public rights of way and the creation of new publicly accessible open areas.

2.66 The proposals comprise circa 95.5ha (236 acres) of B8 rail-linked distribution land. Demand for this land will predominantly come from those occupiers seeking to serve the national and regional market.

Local Plan Considerations

2.67 The North West Leicestershire Local Plan was adopted by the council in August 2002. In line with the Planning and Compulsory Purchase Act 2004, a request to extend the life of a number of the Local Plan policies was submitted to the Secretary of State. The local plan policies that would have been most relevant to strategic distribution development were not extended and subsequently there are no applicable policies from the 2002 local plan to consider here.

2.68 Whilst the North West Leicestershire Core Strategy has now been withdrawn, it sought to focus the majority of employment development in the Coalville Urban Area where possible (including Bardon) with Ashby de la Zouch considered the next most preferable location for employment development. A new Local Plan is being prepared which will include the allocation of sites for employment purposes

Charnwood

2.69 Charnwood in northern Leicestershire (population 166,100 Census 2011) is located between Nottingham, Derby and Leicester. And benefits from good access to the M1. A third of the 166,100 population live in Loughborough but the areas of Birstall and Thurmaston close to Leicester city are also densely populated.

Key Schemes and Sites

Loughborough

2.70 Loughborough is the second largest settlement in Leicestershire with a population of approximately 55,000. Junction 23 of the M1 is located approximately 6.5km to the west of the town and it lies on the busy A6(T), which links Junction 24 of the M1 Motorway to Leicester via Loughborough. East Midlands Airport, which provides domestic and international flights, is approximately 11.25km to the north west of the town centre.

2.71 The majority of employment land lies to the north east of the town adjacent to A6 within the LE11 postal districts.

2.72 VOA data indicates 3 large scale distribution warehouses in Loughborough with a total floor area of 63,000 sq m (678,000 sq ft.). One of these units of 18,000 sq m (202,000 sq ft) on North Road, LE11 1QJ is currently vacant and available at a rent of £500,000 per annum.

Charnwood Astrazeneca, Bishop Meadow Road

2.73 A 28.3ha (70 acre) research and development facility (formerly AstraZeneca) providing predominantly B1 and B2 uses with some small B8 facilities is underway but this is aimed at small scale occupiers primarily associated with research and development.

2.74 *Dishley Grange, Derby Road* is a 8ha (20 acre) site which will provide approximately 37,160 sq m (400,000 sq ft) of mixed industrial, warehouse and office accommodation in units from 460 sq m (5,000 sq ft) to 27,870 sq m (300,000 sq ft). The scheme is located to the north of Loughborough with good access to Derby Road A6.

Shepshed

2.75 Shepshed is very well located being adjacent to J23 of the M1 which is accessed via the A512. Accordingly industrial development has been concentrated along the A512 (Ashby Road).

Ashby Road

2.76 Fred Sherwood Transport occupies a units of 13,750 sq m (148,000 sq ft) to the north of the A512 and Boal Ltd (manufacturers)occupy a 11,890 sq m (128,000 sq ft on Ashby Road east (A512).

Thurmaston

Thurmaston Industrial Estate

2.77 The estate which is owned by Charles Street Buildings Group is located to the north of Leicester. The M1 is approximately 13.5km to the South West and can be accessed from J22 for north bound traffic, or south bound at J21A. A 3.3ha (8.3 acre) plot is available which could accommodate a (18,580 sq m) 200,000 sq ft industrial/ warehouse unit.

Local Plan Considerations

2.78 The Pre-Submission Draft Charnwood Local Plan 2006 to 2028, Core Strategy dated June 2013, Policy CS1 States that the priority for growth will be the Leicester Principal Urban Area where up to 46 hectares (114 acres) of employment land will be delivered by 2028. This will be delivered in a sustainable urban extension to the north east of Leicester, delivering up to 13 hectares (32 acres) of employment by 2028; up to 15 hectares (37 acres) of employment as part of a sustainable urban extension to the north of Birstall; and a direction of growth for up to 16 hectares (40 acres) of general employment land within the Watermead

Regeneration corridor. The strategy also envisages that up to 22 hectares (54 acres) of employment land will be delivered in Shepshed and Loughborough by 2028.

2.79 Policy CS6 commits to delivering a total of up to 75 hectares (185 acres) of land for strategic employment purposes by 2028 in accordance with Policy CS1.

Melton

2.80 Melton is a relatively rural Borough in the North East Leicestershire borders with a population of approximately 50,500 (2011 census).

Key Schemes and Sites

Melton

Old Dalby Business Park

2.81 Old Dalby Business Park, owned by Highcross is a 15.8ha (39 acre) business park located approximately 13km to the north west of Melton Mowbray and benefits from improved access to the M1 as a result of the recent dualling of the A46. Two large scale distribution units are located on this site. Unit 3, a 12,630 sq m (136,000 sq ft) occupied by Brands 2 Hands and Unit 1, a 12,360 sq m (133,000 sq ft) unit. Toyota and East Midlands Pharmaceuticals also occupy units on the site. The majority of the accommodation is in refurbished units. There are additional parcels of land available up to 3.2ha (8 acres) with outline consent for industrial uses.

Leicester Road Industrial Estate, Melton Mowbray

2.82 Leicester Road Industrial Estate to the west on the A607 has good access to the highways network. There is one unit in excess of 9,290 sq m (100,000 sq ft) occupied as a research, design and production facility by Laporte Alphagary Ltd.

Asfordby Business Park

2.83 The Asfordby Business Park site on the former Asfordby coal mine to the east of Melton Mowbray has access to the A46 which leads directly onto the M1 at Junction 21(a). A potential 16ha (40 acres) of additional development land is available. A disused twin track railway line, which could be reinstated, serves the site and a large power supply, providing tenants with 7-40 MVA, is available.

Holwell Works

2.84 The site at Holwell Works 12ha (30 acres) is situated adjacent to the southern boundary of Asfordby Business Park. Outline consent exists for development of 35,080 sq metres of B1 (C), B2 and B8 industrial and warehouse units on the site.

Saxby Road Industrial Estate, Melton Mowbray

2.85 Asfordby Storage and Haulage Ltd occupy the largest unit in the Borough; a 53,420 sq m (575,000 sq ft) unit on an industrial estate to the east of the town, adjacent to the A607.

Mill Street, Melton Mowbray

2.86 Mars Petcare occupy a 46,450 sq m (500,000 sq ft) unit on Mill Street in the centre of the town, close to the A606.

Local Plan Considerations

2.87 The development plan for the Borough is the adopted Melton Local Plan (1999) and the 'saved policies' which it contains, subject to their compatibility with the NPPF. Following the withdrawal of the Melton Local Development Framework Core Strategy in April 2013, work is progressing on the production of a new Melton Local Plan with a draft Issues and Options to be produced in autumn 2014.

Leicester City

2.88 Leicester Urban Area has a population on 330,000 (2011 Census). The city and indeed South Leicestershire as a whole, benefits from good accessibility being positioned centrally within the UK and extremely well serviced with road infrastructure. In particular the M1 and M69 provide immediate links to the middle of the central motorway system. The wider area provides an extensive source of local labour with good access to public transport. However much of the existing industrial stock is dated and not considered fit for purpose.

Key Schemes

Leicester

2.89 Three large-scale distribution units in excess of 9,290sq m (100,000sq ft) in Leicester are found on the Braunstone Frith Industrial Estate in the LE3 postal district[4]. This locations afford excellent access to the M1 via junction 21a.

[4] Part of the LE3 postcode, while generally considered part of the wider Leicester urban area, actually extends into Blaby District.

Beaumont Leys

2.90 The area in Beaumont Leys to the south of the A46 provides a number of large units including Walker's Snacks (Distribution) Ltd who occupy 21,370 sq m (230,000 sq ft).

Hamilton Business Park

2.91 The industrial area to the west of Thurmaston Lane and 6.5km east of Leicester, known as Hamilton Business Park is home to LPC (UK) Ltd who occupy a modern 21,970 sq m (230,000 sq ft) unit used as a paper mill. This location would not be favoured by logistics operators compared to Magna Park due to the poor accessibility to the motorway network.

Local Plan Considerations

2.92 Leicester City Local Development Framework Core Strategy, adopted November 2014 identifies locations for significant new employment development in *Policy 1, Location of Development*, as :-

- City Centre (office based employment);
- Abbey Meadows Science and Innovation Park; (science and technology and related knowledge
- intensive business); and
- Up to 10 hectares of land at Ashton Green.

2.93 *Core Strategy Policy 10* addresses employment opportunities. It notes that 'The City Council will work with partners to ensure that Leicester has a thriving and diverse business community that attracts jobs and investment to the City' and that 'It will prepare a revised Employment Land Study to provide updated guidance on the assessment of "fitness for purpose" i.e. quality of employment land'. It states that 'Employment land shown on the Proposals Map will be retained for B1(c), B2 and B8 uses' and that 'The City Council will support the early delivery of strategic employment sites for low carbon, sustainable development beyond the City boundary'. The Site Allocations and Development Management Policies DPD1 will identify land to be released from employment use. In lower quality employment areas, as defined by the existing Employment Land SPD (2007) and then the revised Employment Land Study, day nurseries, places of worship, car show rooms and other uses that do not have a use class but are commonly found in industrial estates will be acceptable in principle.

2.94 *Core Strategy Policy 14* addresses transport. With respect to freight, it the policy notes that it will provide 'opportunities for sustainable freight movement where possible on rail and waterways by working with Network Rail, British Waterways and other agencies in considering potential low key freight uses and waterside freight connection'. It also states

that 'The delivery of highways and transport improvements as guided by the statutory Local Transport Plan and the Leicester and Leicestershire Growth Infrastructure Assessment, through joint working with neighbouring Transport Authorities and districts where necessary'.

Blaby District

2.95 Blaby District has a population of approximately 94,000 (census 2011) and is located to the south west of Leicester city and benefits from its close proximity to J21 of the M1.

Key Schemes

Cambridge Road Industrial Estate, Whetstone

2.96 The area known as the Cambridge Road Industrial Estate, including the Whittle Estate (approximately 50 acres), Whiteacres (a Wilson Bowden development) and Ashville Way Trading Estate, is located approximately 8km south of Leicester City Centre and circa 4.8km south of the M1/M69 intersection (J21). Access to Junction 21 is via the A426 (Leicester Road/Blaby By-pass) and the A563 (Soar Valley Way).

2.97 The area is predominantly characterised by commercial, warehousing and manufacturing uses. Occupiers include Beam Global Distribution who occupy 15,470 sq m (166,476 sq ft.). Elms Depot, a 13,010 sq m (140,000 sq ft) unit situated immediately off Cambridge Road, is jointly occupied by H W Coates, a specialist in the warehousing and distribution of packaged chemicals and shoe retailers the Dune Group. The Whittle Estate (former GEC) has one large scale distribution unitAlstec Ltd, an engineering company, occupy a 20,720 sq m (223,000 sq ft) unit on this estate.

Meridian Business Park and Grove Park

2.98 These 2 business parks are very well situated at Junction 21 of the M1 and M69, some 4.8km from the centre of Leicester and therefore provide a number of large scale distribution warehouses. Espo, a public sector procurement company occupy a 15,330 sq m (165,000 sq ft) unit and British Gas's national distribution centre of 14,400 sq m (155,000 sq ft) is also located at Grove Park. Royal Mail APC have a 11,150 sq m (120,000 sq ft) unit on Centurion Way and Boden occupy a 9,100 sq m (98,000 sq ft) unit on Meridian West.

Optimus Point, Glenfield

2.99 Optimus Point is a new 30 hectare commercial development situated close to junction 21A of the M1 motorway. Wilson Bowden Developments has successfully promoted the site through the planning system and obtained outline planning consent in October '11 for a mixed use scheme including 62,390 sq m (671,540 sq ft) of warehouse units.

Mill Lane Industrial Estate, Glenfield

2.100 Six large scale distribution units in excess of 9,290sq m (100,000sq ft) are found on the Mill Land Industrial Estate, Glenfield. This location affords excellent access to the M1 via junction 21a.

Local Plan Considerations

2.101 The Blaby District Core Strategy, Adopted (February 2013), cites The Leicester and Leicestershire Employment Land Study (2008) and Blaby District Employment Land and Premises Study (refresh) (2011) as indicating a need for additional employment opportunities within the District of Blaby to satisfy both local and strategic requirements.

2.102 *Policy CS4* addresses the Strategic Employment Site – 'Land east of the Warrens (south of the M69) at Enderby is the preferred location for a Strategic Employment Site (SES) in conjunction with the proposed Sustainable Urban Extension (SUE) at Lubbesthorpe. The SES will provide some 21 hectares (net) of employment land. The type of employment land provided will include B1, B2 and B8 uses. The quantity/split of these uses will be based on market demand, the needs of investors, the requirements for local businesses and inward investors. In order to help meet the employment needs of the District, the SES should provide a range of employment opportunities (B1, B2 and B8).

2.103 *Policy CS6* addresses employment and overall seeks to provide the appropriate quantity, quality and mix of employment opportunities to meet the needs of the District's current and future populations, and to meet strategic employment needs. The policy supports the provision of a 21 hectares (net) Strategic Employment Site (SES) at Enderby adjoining the development of a Sustainable Urban Extension (SUE) at Lubbesthorpe in accordance with Policy CS4.

2.104 *Policy CS10 (Transport)* also notes 'within strategic (including national and regional) and financial constraints, Blaby District Council will support the exploration of realistic opportunities for improving rail based movement of goods and people'.

Oadby and Wigston

2.105 The Borough of Oadby and Wigston is located to the south east of Leicester City and has a population of circa 56,000 (Census 2011). It includes eight established employment areas, where a large proportion of the stock was developed prior to 1970. Relative to other districts in South Leicester it has poor access to the M1 and M69.

Key Schemes

Wigston

Chartwell Drive

2.106 Chartwell Drive is an established industrial location in Wigston to the south of Leicester. Access to the Outer Distributor Road A563 is via Stonesby Avenue, Aylestone Lane and West Avenue. The city centre and J21 M1/M69 are 6.4km distant. Cromwell, an industrial tool distributor occupy 27,870 sq m (300,000 sq ft) unit here.

Kirkdale Road

2.107 One other large scale industrial unit, 10,600 sq m (114,048 sq ft) located on Kirkdale Road, has been vacant and on the market for a number of years. This has access to the outer distributor Road, A563, thereby J21 of the M1/M69 via Stonesby Avenue, Aylestone Lane and West Avenue.

2.108 There is no consented land currently available for B8 development in Wigston and no second hand large scale distribution units available.

Local Plan Considerations

2.109 Oadby and Wigston Core Strategy DPD, adopted September 2010, identifies a number of employment areas but affirms that much of the accommodation in these areas is of low quality and has poor accessibility to the larger trunk roads such as the M1 and M69 compared to other nearby districts. There is limited demand for land in the Borough for storage and distribution type employment uses and employment land to be retained will cater predominantly for local need from existing businesses wishing to expand and for smaller business units to support start-up businesses.

2.110 The focus of the core strategy is therefore on retaining and regenerating Identified Employment Areas.

2.111 *Core Strategy Policy 1* addresses generally spatial development in the Borough. It notes that the council will 'Identify land for the development of 1.3 hectares of industrial and warehousing land between 2008 and 2026'. Paragraphs 5.10 to 5.15 deal with employment growth. It states that Oadby and Wigston forms part of the wider Leicester office, industrial and warehousing market. The supply demand gap analysis suggests an additional requirement for 9 hectares for industrial and warehousing development. It concludes that the scope for meeting these requirements within the Borough is limited, the main opportunity being 1.3 hectares of industrial and warehousing land (comprising 0.8 hectares at the Sports Field off Tigers Way completed in 2009 and 0.6 hectares at Land West off Magna

Road, Magna Industrial Estate an outstanding allocation). It notes that the 3.1 hectare Wigston Railway Triangle site is constrained by the need for a railway bridge and cannot be considered as part of the available development land.

2.112 In the absence of additional suitable land in the Borough, the balance 7.6 hectares of industrial and warehousing land will be added to effective demand in the City of Leicester and the neighbouring districts of Blaby and Harborough.

Harborough

2.113 Harborough has a population of circa 85,000 (Census 2011) and its centrally located, well connected location has led to it becoming a centre for road-based national and regional distribution with the development by Gazeley of Magna Park at Lutterworth. Harborough is a predominantly rural area and much of the labour employed at Magna Park commutes from outside Leicestershire. The largest town in the district, Market Harborough, has no large scale distribution units nor consented employment land capable of accommodating them.

Key Schemes

Lutterworth

2.114 Lutterworth is a small market town in southern Leicestershire benefiting from excellent access to the M1.

Magna Park

2.115 Magna Park is the largest central distribution centre in the UK and in 2008 it was the largest in Europe. It lies in the area bounded by the M1, M6 and M69 motorway to the west of Lutterworth town centre and only a short drive from J20 of the M1 (4km), J1 of the M69 (7km) and within a reasonable commute of J2 of the M6 (7km).

2.116 There are 33 units on the park in excess of 9,290 sq m (100,000 sq ft) and 2 in excess of 92,900 sq m (1,000,000 sq ft); Plot 5320/5420, Hawke Way, a 111,480 sq m (1,200,000 sq ft) unit occupied by TNT and Plot 5410, Hunter Boulevard, a 102,190 sq m (1,100,000 sq ft) unit occupied by Asda.

2.117 Other occupiers include Nissan Motors, Renault UK, VWR International, Steinhoff UK, Stobart group, Wincanton, Asda Walmart, Toyota, Cert Octavian.

2.118 Plot 2110 with detailed planning consent for a single facility of 10,546 sq m (113,520 sq ft) is currently available.

Churchill Way Industrial Estate

2.119 UK Distributor (Footwear) Ltd occupy a 13,470 sq m (145,000 sq ft) unit located on the Churchill Way Industrial Estate on the southern edge of the village of Fleckney , approximately 13km south of Leicester and accessed via the A50.

2.120 With the exception of the Magna Park site there is no consented land currently available for B8 development in Lutterworth and no second hand large scale distribution units available.

Local Plan Considerations

2.121 The Spatial Strategy for Harborough contained in the Harborough District Local Development Framework Core Strategy 2006 – 2028 (adopted Nov 2011) cites the Leicester and Leicestershire Employment Land Study (2008) as indicating a moderate, local need for additional employment land. Policy CS1 proposes to allocate new employment land, in established employment centres, within the Allocations Development Plan Document, to ensure that any losses in the overall stock of employment land are suitably replaced and to identify and safeguard existing sites of important employment use through the designation of Key Employment Areas.

2.122 *Core Strategy Policy 7* addresses enabling employment and business development. It notes that this will be enabled within Harborough District in support of the sub-regional economic growth of Leicester and Leicestershire. It states that it will support the delivery of existing sites with planning permission, while a review of existing employment sites and allocations in the District will be undertaken to confirm a portfolio of sustainable sites, of the right quality to meet any identified shortfalls in future need. A criterion based assessment will be used to review sites including accessibility tests, policy factors, market attractiveness, sustainable development and strategic planning factors.

2.123 Paragraph h) addresses the specific site of *Magna Park*. It states that the policy will 'Protect Magna Park's unique role as a strategic distribution centre (B8 uses / Min unit size 10,000m^2) of national significance and an exemplar of environmental performance. No further phase of development or large scale expansion of the site, beyond the existing development footprint (to be defined in the Allocations DPD) will be supported'. It is seen as meeting a regional, or strategic, rather than local need and the Core Strategy states that:

2.124 'In the context of the evidence studies, against the criteria they set, and taking account of future developments in the road/rail network, travel to work patterns and the type and skill level of logistics jobs compared to local employment needs, there are more suitable locations and sites (both rail and non rail-linked) than Magna Park within the region and sub-region to meet forecast need for strategic distribution to 2026. On the balance of evidence the preferred policy approach to Magna Park seeks to; support the national/regional drive for a

modal shift of freight from road to rail, protect the site's strategic role for distribution, and safeguard its future and that of its businesses, whilst resisting a further Phase 3 of development and containing the site to its existing development footprint.'

2.125 A new Local Plan for Harborough District is currently being prepared in place of an Allocations DPD, and will incorporate a focused review of the Core Strategy. The document will identify areas for development (incl. employment) in the form of strategic allocations.

Hinckley and Bosworth

2.126 The Hinckley and Bosworth borough has a population of approximately 105,000 (Census 2011). In addition to manufacturing, coal mining was important to the local economy with pits at Bagworth, Desford, Merrylees and Nailstone. Both traditional manufacturing and mining have declined but good accessibility to the motorway network particularly around the A5 corridor has lead to the growth of the distribution sector. However, the latter is now seen to be contributing to congestion problems around the A5.

Key Schemes

Hinckley

2.127 Hinckley in south west Leicestershire is the second largest town in the administrative county. It has a strong manufacturing heritage as the centre of the hosiery industry and it is home to Triumph Motorcycles. Road links are good junction 1 of the M69 to the south of the town.

Dodwells Bridge Industrial Park

2.128 Dodwells Bridge Industrial Park to the west of Hinckley town has immediate access to the A5 and thereby the M69 at Junction 1. Tesco's Distribution occupy a 28,800 sq m (310,000 sq ft) warehouse on Dodwells Road and a 18,580 (200,000 sq ft) unit on Brindley Road is occupied by SCA Industrial, a packaging company. Elmsteel Ltd a precision engineering company occupy a 18,040 sqm (194,161 sq ft.) unit on the industrial park.

Logix Park

2.129 Syncreon, a specialised distributor of industrial materials and products, occupy a 35,300 sq m (380,000 sq ft) unit on Logix Park. Logix park, developed by Rosemound Developments in 2006, is located to the south of Hinckley on the A5 with good motorway accessibility. Armstrong Logistics, Aldi's distributors also occupy a unit on the park

Desford Road

2.130 There are two large scale units along the Desford Road on the former Timkin Desford Steel site, located 9.5km west of Leicester and 5km west of J21a of the M1 via the A46. Caterpillar UK Ltd occupy a 18,000 sq m (913,737 sq ft) manufacturing facility and At Crown Crest plc occupy a 74,230 sq m (799,000 sq ft) cash and carry distribution operation.

Hinckley Commercial Park

2.131 Hinckley Commercial Park is situated immediately adjacent to the A5 and is located 1 mile from junction 1 of the M69 motorway which provides access to the national motorway network. The site was acquired by Goodman in 2004 and a £12m infrastructure project was implemented. This provided a new roundabout from the A5, together with a new duelled access into the development In October 2006, Goodman developed a 33,910 sq m (365,000 sq ft) national distribution building for Walsh Western, a unit for Johnsons Apparel Master and a 12,260 sq m (132,000 sq ft) distribution centre for Caterpillar Logistics in 2007. In summer 2013 DPD committed to a 30,660 sq m (330,000 sq ft) parcel hub. Phase II will provide an additional 120 acres of development. DPD stated that the Hinckley site was chosen because of its proximity to motorway links to the whole of the UK, and because there is more scope for future expansion than in Smethwick, where DPD UK has its three other hubs.

2.132 The only consented land in Hinckley is located on Logix Park and there are no second hand large scale distribution units available.

Local Plan Considerations

2.133 The Hinckley and Bosworth Core Strategy, adopted December 2009, proposes 10 hectares for warehousing, focused primarily at/adjacent to Hinckley to support its role as a sub-regional centre, with smaller allocations in the Key Rural Centres to support local employment opportunities. In addition, to ensure the sustainability of the Urban Extensions at Earl Shilton and Barwell there is a need to allocate a further 20- 25 ha of employment land to support the population in these new communities (Leicester and Leicestershire HMA Employment Land Study, 2008). This is provided for in Policies 2 and 3 of the Core Strategy which states that the employment allocations are to provide for industrial and warehousing developments which should primarily support local employment opportunities, including starter and grow-on units.

2.134 Policy 4 covering development in Burbage proposes to allocate land for the development of 10 ha of B8 employment 4 ha of B2 employment land adjacent to the railway line as an extension to Logix Park.

Section 2.4: Summary and Key Messages

2.135 Given their fixed nature and the large capital required to develop them, large scale warehouses (NDCs or RDCs) are considered as key geographically specific investments at the 'shipper' level. It is therefore important that sites selected for large scale distribution centres are competitive and attractive to the logistics market.

2.136 The important commercial players in the market are the manufacturers/producers (particularly those based overseas) and the major retailers, together with their 3PLs who physically transport and handle the cargo on their behalf. It is these organisations who will dictate future logistics strategy, particularly with respect to the location of distribution centres and inland transport mode. The need for cost effective logistics strategies will be an important contributory factor to the process of maintaining and enhancing competitive positions.

2.137 The distribution strategy which has been established and adopted by most players in the market over the past 25-30 years is broadly based around NDCs serving a network of RDCs and end users. Under this strategy, the southern part of the East Midlands region (the 'golden triangle) became the preferred location for large scale NDCs due a combination of the following reasons:

- It was broadly central to the major domestic production sites, the deep-sea and Channel ports and RDCs in other regions;
- The release of large competitive sites by local authorities for B8 use during the 1980s which were close junctions on the M1/M6; and
- Historically, relatively low road haulage costs (in turn driven by low fuel costs) and competitive labour rates.

3. CURRENT FREIGHT FLOWS IN LEICESTERSHIRE

3.1 The man aim of this Section of the report was threefold, namely:

- Establishing the current volume of goods delivered in the East Midlands region and Leicestershire sub-region, for both road and rail freight;
- Assessing how these volumes have changed over the recent past; and
- Establishing the current volume of goods delivered directly to distribution centres in the East Midlands region and Leicestershire sub-region.

3.2 The main data source of the analysis has been MDS Transmodal's *GB Freight Model*[5]. Outputs from the GB Freight Model can be divided into different commodity groups. Recognising that strategic distribution sites only handle certain types of cargo, the analysis has consequently focused on those commodities which at some stage in the supply chain will pass through a distribution centre (NDCs and/or RDCs). Commodities such as food, beverages and manufactured goods have been included in the analysis[6]. Goods which are not handled at distribution centres, such as coal, aggregates, metals and waste, were consequently excluded from the analysis.

Section 3.1: Current Road Freight Flows in Leicestershire

3.3 The table below (Table 3.1) estimates the current (2012) volume of goods moved by road transport into, out of and within the East Midlands region and Leicestershire sub-region, for those commodities which at some stage in the supply chain will pass through a warehouse (so called 'distribution centre commodities'). A breakdown by origin and destination regions is also provided, differentiated into 'Leicestershire' and 'Other East Midlands' for the East Midlands region. Maps 3.1 and 3.2 following illustrate these figures for traffic moving to and from the East Midlands region.

3.4 It should be noted that a small proportion of the freight collected or delivered by road transport in Leicestershire/East Midlands will also have been moved by rail freight at some point in the supply chain (e.g. to DIRFT by rail and then by road to Magna Park). Likewise, a small percentage of the freight delivered by road in Leicestershire/East Midlands will subsequently be lifted by rail freight. Rail freight is addressed in Section 3.2 below.

[5] A freight transport model developed by MDS Transmodal, and used for analysing current and forecasting future freight flows to, from and within Great Britain by mode, origin/destination, routing and commodity. It has been audited by the DfT and used to inform a number of their studies, and it was also employed on the East Midlands Strategic Distribution Study (for the former EMDA) to forecast land use requirements going forward. It has recently been used to produce updated rail freight forecasts for Network Rail.

[6] Beverages, Food (fresh, perishable and non-perishable), Furniture, Clothing, Manufactured Articles, Paper and Card (including packaging), Parcels and Wood/Cork Manufactures

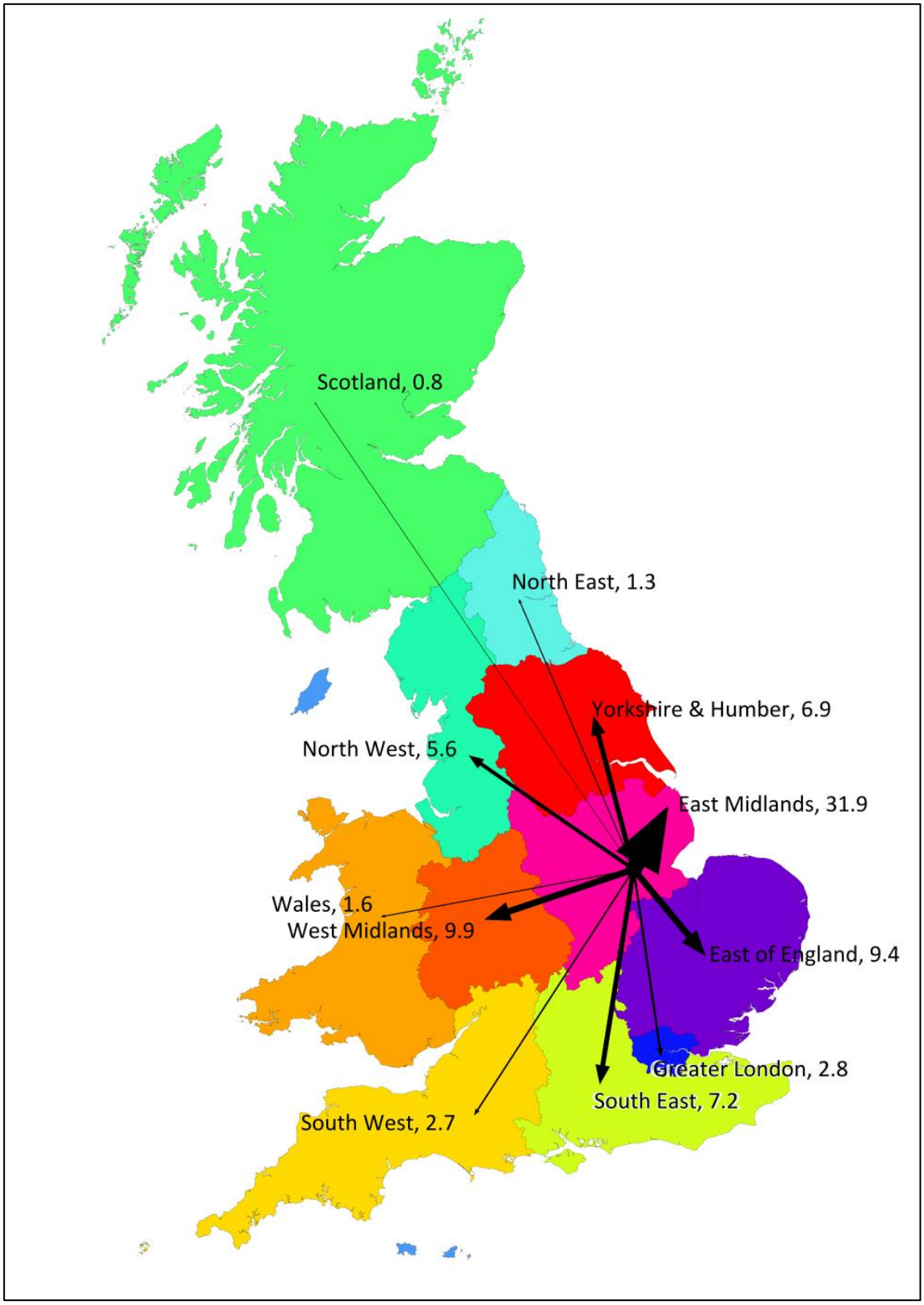
Table 3.1: Total Road Freight Traffic to and from East Midlands by Origin and Destination (2012) – Distribution Centre Commodities

000s tonnes lifted

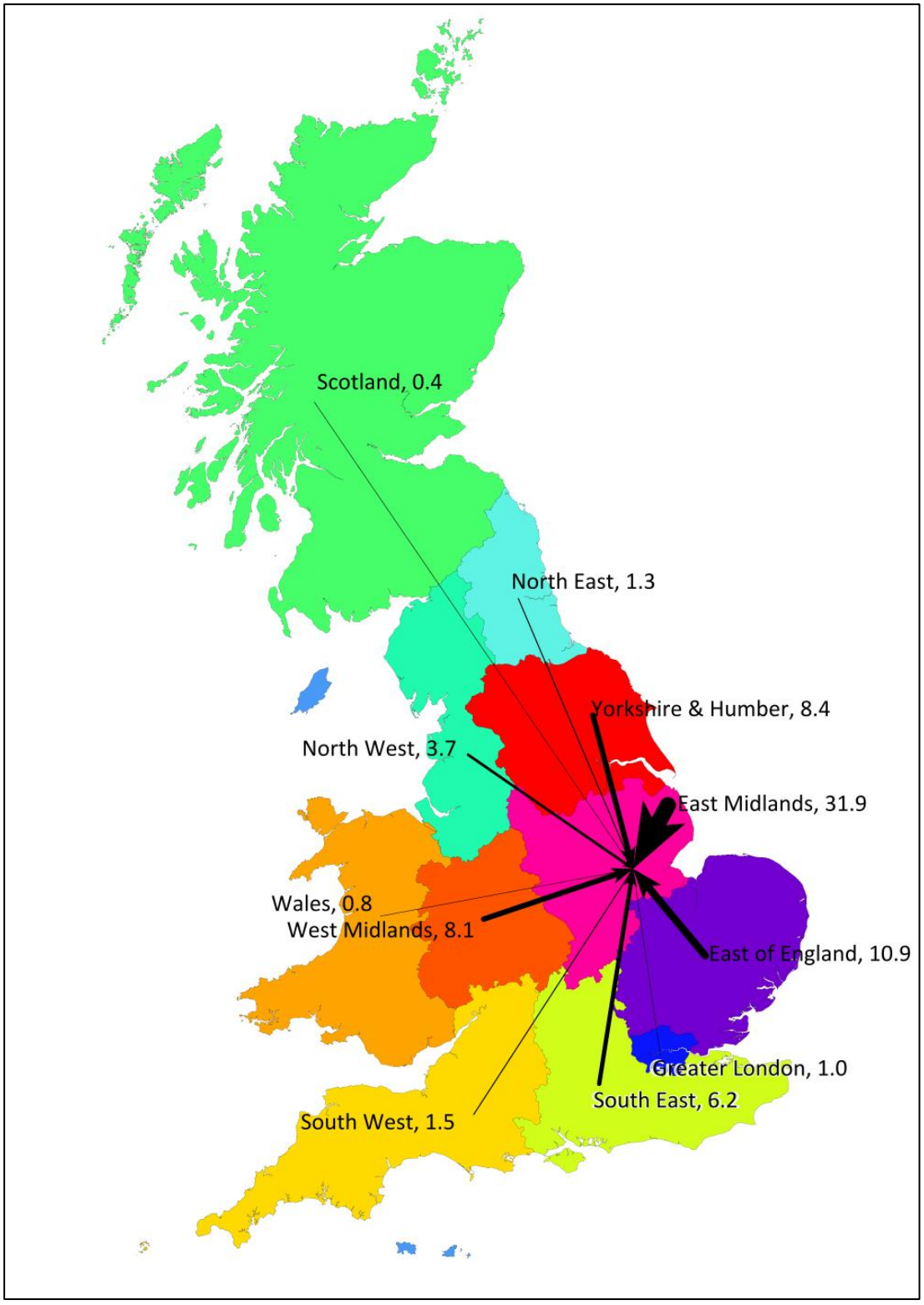
To East Midlands					**From East Midlands**			
	Destination					Origin		
Origin Region	Leicestershire	Other East Midlands	TOTAL		***Destination Region***	Leicestershire	Other East Midlands	TOTAL
Leicestershire	5,403	2,757	8,160		Leicestershire	5,403	2,609	8,011
Other East Midlands	2,609	21,144	23,753		Other East Midlands	2,757	21,144	23,901
East of England	2,177	8,732	10,909		East of England	1,737	7,653	9,390
Greater London	346	676	1,022		Greater London	651	2,144	2,794
North East	308	974	1,282		North East	296	997	1,293
North West	898	2,852	3,749		North West	1,362	4,231	5,594
Scotland	195	248	443		Scotland	138	710	848
South East	1,393	4,814	6,207		South East	1,827	5,336	7,163
South West	392	1,086	1,478		South West	756	1,983	2,738
Wales	182	625	807		Wales	508	1,069	1,577
West Midlands	2,290	5,818	8,109		West Midlands	3,358	6,492	9,850
Yorkshire & Humber	1,979	6,389	8,369		Yorkshire & Humber	2,238	4,667	6,905
TOTAL	**18,171**	**56,116**	**74,287**		**TOTAL**	**21,031**	**59,035**	**80,066**

Source: GB Freight Model

Map 3.1: Road Freight Traffic From East Midlands Region, million tonnes lifted (2012) – Distribution Centre Commodities



Map 3.2: Road Freight Traffic To East Midlands Region, million tonnes lifted (2012) – Distribution Centre Commodities



3.5 In summary, around 74.3 million tonnes of distribution centre commodities were delivered in the East Midlands region (including the Leicestershire sub-region) in 2012. Around 43% of this total had an East Midlands region origin (32 million tonnes). Of the remaining traffic coming into the East Midlands by road, 45% (33.5 million tonnes) is from the neighbouring regions of West Midlands, East of England, Yorkshire/Humber and the South East. Overall, around 95% of all road freight traffic delivered into the region is moving less than 250km. This is the distance above which rail freight becomes cost competitive when one end of the trip is directly rail-served e.g. a port or strategic distribution site such as DIRFT (a road haul consequently being required at the non rail-served end). Rail should always be competitive, except over very short distances, where both ends of the trip are directly rail-served e.g. between a port and rail-served strategic distribution site. The development of rail-served strategic distribution sites is therefore an essential component in delivering modal shift from road to rail (a key public policy objective on sustainability grounds), as it greatly reduces the distance over which rail can offer a competitive solution. Conversely, planning for road-only connected strategic distribution sites will have a marginal impact on modal shift.

3.6 In the opposite direction, around 80.1 million tonnes of distribution centre commodities were collected in the East Midlands region (including the Leicestershire sub-region) in 2012. Around 40% of this total subsequently had an East Midlands destination (32 million tonnes). The fact that road freight traffic collected in the region is greater than the volume delivered reflects the important manufacturing base in the East Midlands, particularly food production (what goes into a warehouse subsequently leaves shortly after, the additional traffic being that produced in the East Midlands).

3.7 As per inbound traffic, most cargo leaving the region by road is travelling to the neighbouring regions. It is worth noting the relatively small proportion of freight delivered to London given the size of the Capital's economy, particularly when compared with metropolitan areas in other regions (West Midlands, North West and Yorkshire). Also, volumes delivered to the East of England and the South East are significant and larger than that delivered to Greater London. This reflects the fact that most RDCs serving London are located in the East of England/South East rather than in London itself. Given the high proportion of NDC floor space in the East Midlands and the structure of supply chains outlined in Section 2, the volumes subsequently delivered to each regional broadly reflect the warehouse floor space in those regions (see Section 4) along with the population and consumption in those regions.

3.8 The table below estimates, for distribution centre commodities, the current (2012) volumes of goods moved by road transport to the East Midlands region and Leicestershire sub-region, differentiating by whether their origin is domestic or international.

Table 3.2: Road Freight Traffic Delivered to East Midlands by Domestic/International (2012) – Distribution Centre Commodities

	000s tonnes lifted		
	Destination		
	Leicestershire	Other East Midlands	TOTAL
Domestic	16,782	51,499	68,281
Imports - LoLo	940	675	1,614
Imports - RoRo	182	3,541	3,723
Imports - other	267	401	668
TOTAL	18,171	56,116	74,287

Source: GB Freight Model

3.9 A similar analysis has been undertaken for the West Midlands region, and these figures have been subsequently combined to produce a 'grand total' for the two regions which are generally accepted to incorporate the golden triangle (as described in Section 2). These are shown in the tables below.

Table 3.3: Total Road Freight Traffic to and from West Midlands by Origin and Destination (2012) – Distribution Centre Commodities

	000s tonnes lifted			
To West Midlands			**From West Midlands**	
Origin Region	**Total**		***Destination Region***	**Total**
East of England	5,328		East of England	5,165
Greater London	2,370		Greater London	1,593
Leicestershire	2,290		Leicestershire	3,358
Other East Midlands	5,818		Other East Midlands	6,492
North East	740		North East	726
North West	6,032		North West	7,139
Scotland	740		Scotland	384
South East	6,226		South East	6,437
South West	4,243		South West	3,878
Wales	2,443		Wales	2,090
West Midlands	30,899		West Midlands	30,899
Yorkshire & the Humber	3,047		Yorkshire & the Humber	4,272
Total	**70,177**		**Total**	**72,432**

Source: GB Freight Model

Table 3.4: Total Road Freight Traffic to and from East and West Midlands Combined by Origin and Destination (2012) – Distribution Centre Commodities

	000s tonnes lifted			
To East and West Midlands			**From East and West Midlands**	
Origin Region	**Total**		***Destination Region***	**Total**
East and West Midlands	80,770		East and West Midlands	80,770
Eastern	16,074		Eastern	14,718
Greater London	2,615		Greater London	5,165
North East	2,008		North East	2,034
North West	10,888		North West	11,626
Scotland	827		Scotland	1,588
South East	12,644		South East	13,389
South West	5,356		South West	6,981
Wales	2,896		Wales	4,020
Yorkshire & the Humber	12,641		Yorkshire & the Humber	9,952
Total	**146,718**		**Total**	**150,243**

Source: GB Freight Model

3.10 Data from previous years which is directly comparable with the analysis presented above are not available. However, the publication *Road Freight Statistics 2005* (which as per the GB Freight Model derives its data from the Continuing Survey of Road Goods Transport[7]) provides a region-region analysis for all commodities lifted by road transport, thereby allowing a broad comparison between 2005 and 2012 to be undertaken. This is shown in the table below.

Table 3.5: Total Road Freight Traffic East Midlands 2005 and 2012

	Millions tonnes lifted		
	2005	2012	% change
From East Midlands	179	163	-9.8%
To East Midlands	168	151	-11.3%

Source: Road Freight Statistics 2005 and GB Freight Model

3.11 These figures are reflected nationally. The fall in cargo lifted by road transport can be explained by two factors, namely:

- A general decline in demand for commodities due to the economic downturn; and
- Modal shift to rail freight, particularly for deep-sea maritime containers and long distance flows of consumer goods from the Midlands to Scotland (see below).

Section 3.2: Current Rail Freight Flows in Leicestershire

3.12 A similar analysis to that above has been undertaken for rail freight. As per road traffic, the GB Freight Model provides outputs by commodities and traffic type. The analysis has therefore focused on intermodal rail freight i.e. deep-sea maritime containers and other unit loads, where the cargo conveyed will be passing through a distribution centre at some stage in the supply chain. Bulk traffics are consequently excluded. The table below presents a summary of the analysis.

[7] An on-going sample survey of goods vehicle operators, conducted by the DfT, which is used to estimate the volume of goods moved and lifted by HGVs annually.

Table 3.6: Intermodal Rail Freight Traffic to and from East Midlands (2012)

	000s tonnes lifted		
To East Midlands			**From East Midlands**
Origin			***Destination***
Channel Tunnel	69		Channel Tunnel 64
East Midlands	1		East Midlands 1
East of England	202		East of England 139
Greater London	78		Greater London 63
Scotland	647		North West 0
South East	70		Scotland 790
Wales	31		South East 72
			Wales 84
TOTAL	**1,097**		
			TOTAL **1,213**
Type			***Type***
Channel Tunnel	69		Channel Tunnel 64
Import from Port	271		Export to Port 211
Domestic	757		Domestic 939
TOTAL	**1,097**		**TOTAL** **1,213**

Source: GB Freight Model

3.13 Approximately 1.2 million tonnes of intermodal rail freight was collected in the region in 2012, mainly deep-sea container traffic and domestic flows to RDCs in Scotland from NDCs in the East Midlands. Around 1.1 million tonnes of intermodal rail freight was delivered into the East Midlands in 2012, again mainly from the deep-sea ports and cargo from Scotland. For domestic intermodal, given that the primary flow is from the Midlands to Scotland (i.e. the trains are essentially commissioned by the retailers to move cargo from the Midlands into Scotland), the large flows coming south suggest that the operators are also securing significant backload traffic from Scottish producers.

3.14 As indicated earlier, rail freight delivered in Leicestershire/East Midlands will subsequently be re-delivered by road transport (predominantly to strategic warehousing, see Section 3.3 below). Likewise, freight collected by rail in Leicestershire/East Midlands will have previously be lifted by road transport.

3.15 As per the road freight traffics, a similar analysis has been undertaken for the West Midlands region, and these figures have been subsequently combined to produce a 'grand total' for the two regions which are generally accepted to accommodate the golden triangle (as described in Section 2). These are shown in the tables below.

Table 3.7: Unit Load Rail Freight Traffic to and from West Midlands (2012)

	000s tonnes lifted			
To West Midlands			**From West Midlands**	
Channel Tunnel	96		Channel Tunnel	50
Import from Port	2,343		Export to Port	2,322
Domestic	52		Domestic	40
TOTAL	**2,491**		**TOTAL**	**2,412**

Source: GB Freight Model

Table 3.8: Unit Load Rail Freight Traffic to and from East and West Midlands (2012)

	000s tonnes lifted			
To East and West Midlands			**From East and West Midlands**	
Channel Tunnel	165		Channel Tunnel	114
Import from Port	2,614		Export to Port	2,533
Domestic	810		Domestic	979
TOTAL	**3,589**		**TOTAL**	**3,626**

Source: GB Freight Model

3.16 Directly comparable national rail freight data goes back to the financial year 2004/5. This is shown in the table below for all rail freight traffics and the intermodal sector.

Table 3.7: National Rail Freight Traffics 2004/5 and 2011/12

	Millions tonnes lifted		
	2004/5	2011/12	Indicative CAGR %
Total Rail Freight	**115.4**	**111.3**	**-0.5%**
of which:			
Intermodal - Ports/Ch Tunnel	11.6	15.7	4.5%
Intermodal - domestic	2.0	2.7	4.3%
of which:			
FMCG	*1.3*	*2.2*	*8.8%*

Source: Network Rail Freight Market Study
CAGR: Compound Annual Growth Rate
FMCG: Fast Moving Consumer Goods

3.17 Nationally, rail freight traffics have declined marginally. However, this fall masks significant gains by the intermodal sector. As alluded to above, these trends reflect two important factors, namely:

- A general decline in demand for commodities due to the economic downturn. In the case of rail freight, this particularly effected the metals and construction materials sectors; and
- Modal shift to rail freight, particularly for deep-sea maritime containers and long distance FMCG flows from the Midlands to Scotland (domestic intermodal). In a declining market overall, intermodal rail freight has been growing at around 4.5% annually on a compound basis over the same time period, implying modal shift and growing market share for rail. One of the key factors driving this growth has been the continued development of large scale warehouse floor capacity on directly rail-served sites e.g. DIRFT or Hams Hall.

Section 3.3: Freight Flows to Distribution Centres in Leicestershire

3.18 The above data, however, does not establish the volume of goods which are delivered directly to distribution centres in the East Midlands and Leicestershire sub-region. The GB Freight Model's baseline data for road transport flows is derived from the DfT's Continuing Survey of Road Goods Transport (CSRGT). The CSRGT effectively records goods each time they are lifted from manufacturer/port to distribution centre to retail outlet. For example, one tonne of cargo transferred from a port to NDC to RDC to retail outlet would be recorded

as 3 tonnes in the CSRGT. The total volume of road freight delivered in the East Midlands, as described in the table above, is therefore sum of all cargo delivered into factories, NDCs, RDCs and retail outlets.

3.19 In order to establish the current volume of unitised goods being delivered directly to distribution centres in the region, a further 'filter' has to be applied to the current road traffic flow data to eliminate this double/triple counting. Analysis undertaken by MDS Transmodal/Savills for the *East Midlands Strategic Distribution* in 2006 (for the former East Midlands Development Agency) concluded that around 45% of road freight traffic destined for the East Midlands was being delivered direct to a distribution centre (the remainder being delivered direct to stores or to other facilities). Using this figure for domestic road freight, and also assuming that 100% of imported road traffic and rail freight is delivered direct to a distribution centre (given the nature of this traffic, it is reasonable to assume that 100% of these flows will be direct to a distribution centre), the total volume of cargo that is delivered direct to a distribution centre in the East Midlands region and Leicestershire sub-region can be estimated. This is undertaken in the table below.

Table 3.4: Estimated Volume of Cargo Delivered Direct to Distribution Centres in East Midlands and Leicestershire (2012)

	000s tonnes		
	Destination		
	Leicestershire	Other East Midlands	Total
Domestic HGV traffic	7,552	23,175	30,727
Imports by HGV	1,389	4,617	6,005
Rail freight		1,097	1,097
Total	**8,940**	**28,889**	**37,829**

Source: GB Freight Model and Consultant's estimates

3.20 On this basis, 37.8 million tonnes of cargo is currently delivered direct to distribution centres in the East Midlands region. As a 'sense check', these volumes have been related to the current quantum of large scale distribution centre floor space in the region (see Section 4 below). This suggests that the East Midlands region hosts *8.056 million square metres* of floor space. Assuming that, on average, 85% of total floor space is utilised at any one time (the 'buffer space' is used for peak periods), this suggests that each square metre of floor space handles around 5.5 tonnes of cargo per annum. This is consistent with what we would expect at NDCs (stock holding role) and implies average dwell times of around 5-6 weeks.

Section 3.4: Summary and Key Messages

3.21 Around 74.3 million tonnes of distribution centre commodities were delivered in the East Midlands region (including the Leicestershire sub-region) by road transport in 2012. Around 43% of this total had an East Midlands region origin, with around 45% coming into the East Midlands from the neighbouring regions of West Midlands, East of England, Yorkshire/Humber and the South East. Around 95% of all road freight traffic delivered into the region is therefore moving less than 250km, this being the distance above which rail freight becomes cost competitive when one end of the trip is directly rail-served. Rail should always be competitive, except over very short distances, where both ends of the trip are directly rail-served. The development of rail-served strategic distribution sites is therefore an essential component in delivering modal shift from road to rail (a key public policy objective on sustainability grounds), as it greatly reduces the distance over which rail can offer a competitive transport solution. Conversely, planning for road-only connected strategic distribution sites will have a marginal impact on modal shift.

3.22 Around 80.1 million tonnes of distribution centre commodities were collected in the East Midlands region in 2012. The fact that road freight traffic collected in the region is greater than the volume delivered reflects the important manufacturing base in the East Midlands, particularly food production.

3.23 The volume of cargo lifted by road freight in the East Midlands since 2005 has declined by around 10%. This is explained by a general decline in demand for commodities due to the economic downturn and modal shift to rail freight, particularly for deep-sea maritime containers and long distance flows of consumer goods from the Midlands to Scotland (see below).

3.24 Approximately 1.2 million tonnes of intermodal rail freight was collected in the region in 2012, mainly deep-sea container traffic and domestic flows to RDCs in Scotland from NDCs in the East Midlands. Around 1.2 million tonnes of intermodal rail freight was delivered into the East Midlands in 2012, again mainly from the deep-sea ports and cargo from Scotland.

3.25 Nationally, rail freight traffics have declined marginally since 2005 (principally due to a fall in demand for metals and construction materials). However, this fall masks significant gains by the intermodal sector, which has been growing at around 4.5% annually on a compound basis over the same time period. These trends reflect two important factors, namely:

- A general decline in demand for commodities due to the economic downturn; and
- Modal shift to rail freight, particularly for deep-sea maritime containers and long distance FMCG flows from the Midlands to Scotland (domestic intermodal). In a declining market

overall, intermodal rail freight, implying modal shift and growing market share for rail. One of the key factors driving this growth has been the growth of large scale warehouse floor capacity on directly rail-served sites.

3.26 Around 37.8 million tonnes of cargo is currently delivered direct to distribution centres in the East Midlands region.

4. EXISTING SUPPLY OF LARGE SCALE WAREHOUSING IN LEICESTERSHIRE

4.1 Section 2.3 above provided an overview of the logistics sector in Leicestershire, including areas in the county associated with strategic distribution and details of some of the key sites/schemes, warehouses (inc floor space) and occupiers. The main aim of this section has been to establish the quantum of existing large scale warehouse floor space capacity in the region and Leicestershire (along with undertaking a national comparison) and where this capacity is currently located. This is for three reasons:

- It provides an indication of the region's current position nationally in the strategic distribution sector;
- There is a need to quantify the total existing large scale warehouse floor space capacity in the region/Leicestershire, as this is an important baseline figure which will feed into the forecasting assessment in Part B; and
- It allow the past locational decisions made by the market to be identified.

4.2 The *Valuation Office Agency (VOA)* records the amount of floor space by function within individual commercial properties across England and Wales for Business Rates purposes (non-domestic ratings list). This data is available via the VOA's website showing, for individual properties, their location and amount of floor space by function (e.g. warehousing). MDS Transmodal has interrogated this on-line facility and subsequently generated a *database* of all large scale warehouses by floor space size, location and occupier for England and Wales. A large scale warehouse is defined as an individual unit over 9,000 square metres or approximately 100,000 sq ft; this being the standard recognised definition within the commercial property sector. Across England and Wales, a total of 2,049 buildings covering *39.8 million square metres* of floor space can be identified. A breakdown of these figures by Government Office Region are presented in the table below, also showing the mean floor space per unit.

Table 4.1: Current Large Scale Warehouse Capacity England and Wales, by Region

Region	Floor Space (000s sq m)	Number Warehouse Units	Mean size per unit (sq m)
East Midlands	*8,056*	*334*	*24,121*
North West	6,465	368	17,567
West Midlands	6,133	317	19,347
Yorks&Humb	6,010	302	19,900
East of England	3,988	199	20,039
South East	3,057	176	17,368
South West	1,821	100	18,213
Greater London	1,607	112	14,345
North East	1,352	72	18,775
Wales	1,335	69	19,354
Total	**39,824**	**2,049**	**19,436**
Region	**Floor Space (% national total)**	**Number Warehouse Units (% national total)**	
East Midlands	*20%*	*16%*	
North West	16%	18%	
West Midlands	15%	15%	
Yorks&Humb	15%	15%	
East of England	10%	10%	
South East	8%	9%	
South West	5%	5%	
Greater London	4%	5%	
North East	3%	4%	
Wales	3%	3%	

Source: MDS Transmodal Warehouse Database (derived from VOA business ratings data) as at January 2014

4.3 The table shows that East Midlands region hosts just over *8 million square metres* of floor space across 334 large scale warehouse units. The average size of a warehouse unit is around 24,000 square metres. It is important to note that whilst East Midlands region records around 8% of the population of England and Wales, it accommodates 20% of total English and Welsh warehouse capacity. The mean size per unit is also significantly above the national figure. Demand for warehouse floor space is directly related to cargo throughput, which in turn is related to the demand for goods within the wider economy. The data presented above consequently demonstrates that the East Midlands region has a distinct competitive advantage in this sector, in that it has attracted a quantum of warehouse floor space significantly above that which its population and wider economy would suggest. Essentially the region 'punches above its weight' in this sector; the total amount of floor space being significantly more than is required to handle the volume of cargo distributed into the East Midlands regional economy. The above analysis would suggest that around 65-70% of the region's floor space is playing a national rather than regional role.

4.4 This high concentration of floor space in the East Midlands region can be explained by reference to the distribution strategy which has been established and adopted over the past 25-30 years by most large players in the logistics market. This was undertaken in Section 2 which described the differing functions of large scale warehouse units (i.e. NDCs and RDCs), the flows of cargo into and between each type of facility and why the southern part of the East Midlands region became the preferred location for large scale NDCs. The above described figures demonstrates this position clearly. The fact that the mean size per unit is also significantly above the national figure further demonstrate the 'national' role played by warehousing in the East Midlands. As discussed in Section 2, NDCs are predominantly undertaking a stock-holding role, and consequently more floor space is required to undertake this function when compared with RDCs where dwell times are much shorter.

4.5 In contrast, the preferred location for large scale RDCs is close to the main conurbations of Britain, as this is where the main end-delivery points are located. This position is reflected in the table above, which shows significant concentrations of floor space in the North West (Manchester, Liverpool), the West Midlands (Birmingham), Yorkshire (Leeds, Sheffield) and the South East, East of England and London. The fact that the mean size per unit in these regions is closer to the national average demonstrates a higher proportion of RDC floor space in these regions.

4.6 The table below describes the current supply of large scale warehousing in the East Midlands region by county, alongside similar data for the neighbouring regions of West Midlands, East of England and Yorkshire/Humber along with the Milton Keynes unitary authority.

Table 4.2: Current Large Scale Warehouse Capacity in East Midlands, West Midlands, Yorkshire, East of England and Milton Keynes

Region/County	Floor Space (000s sq m)	Number Warehouse Units	Mean size per unit (sq m)
East Midlands			
Northamptonshire	3,545	134	26,458
Leicestershire	2,250	89	25,277
Nottinghamshire	1,076	44	24,450
Derbyshire	829	45	18,418
Lincolnshire	357	22	16,219
Total	**8,056**	**334**	**24,121**
Yorks/Humber			
West Yorkshire	2,457	133	18,474
South Yorkshire	1,778	69	25,766
East Yorks/N Lincs	1,196	70	17,086
North Yorkshire	579	30	19,289
Total	**6,010**	**302**	**19,900**
West Midlands			
Staffordshire	2,880	126	22,858
West Midlands	1,876	119	15,767
Warwickshire	692	30	23,060
Hereford & Worcester	475	31	15,324
Shropshire	210	11	19,088
Total	**6,133**	**317**	**19,347**
East of England			
Bedfordshire	516	17	30,324
Cambridgeshire	972	45	21,593
Essex	952	47	20,265
Hertfordshire	806	44	18,320
Norfolk	310	20	15,492
Suffolk	432	26	16,623
Total	**3,988**	**199**	**20,039**
Milton Keynes			
Total	**742**	**36**	**57,097**

Source: Source: MDS Transmodal Warehouse Database (derived from VOA business ratings data) as at January 2014.
NB Data does not include East Midlands Distribution Centre at Castle Donington, which has become operational since the data was compiled.

4.7 The table shows that around 72% of East Midlands floor space capacity is located in Northamptonshire or Leicestershire. In Leicestershire itself, around 2.25 million square metres of floor space across 89 warehouse units are identified. There are also substantial concentrations of warehousing in neighbouring authorities such as Milton Keynes. The table below shows the current supply of large scale warehousing in Leicestershire and Northamptonshire by Postcode Area. This data is also reflected in Map 4.1 following.

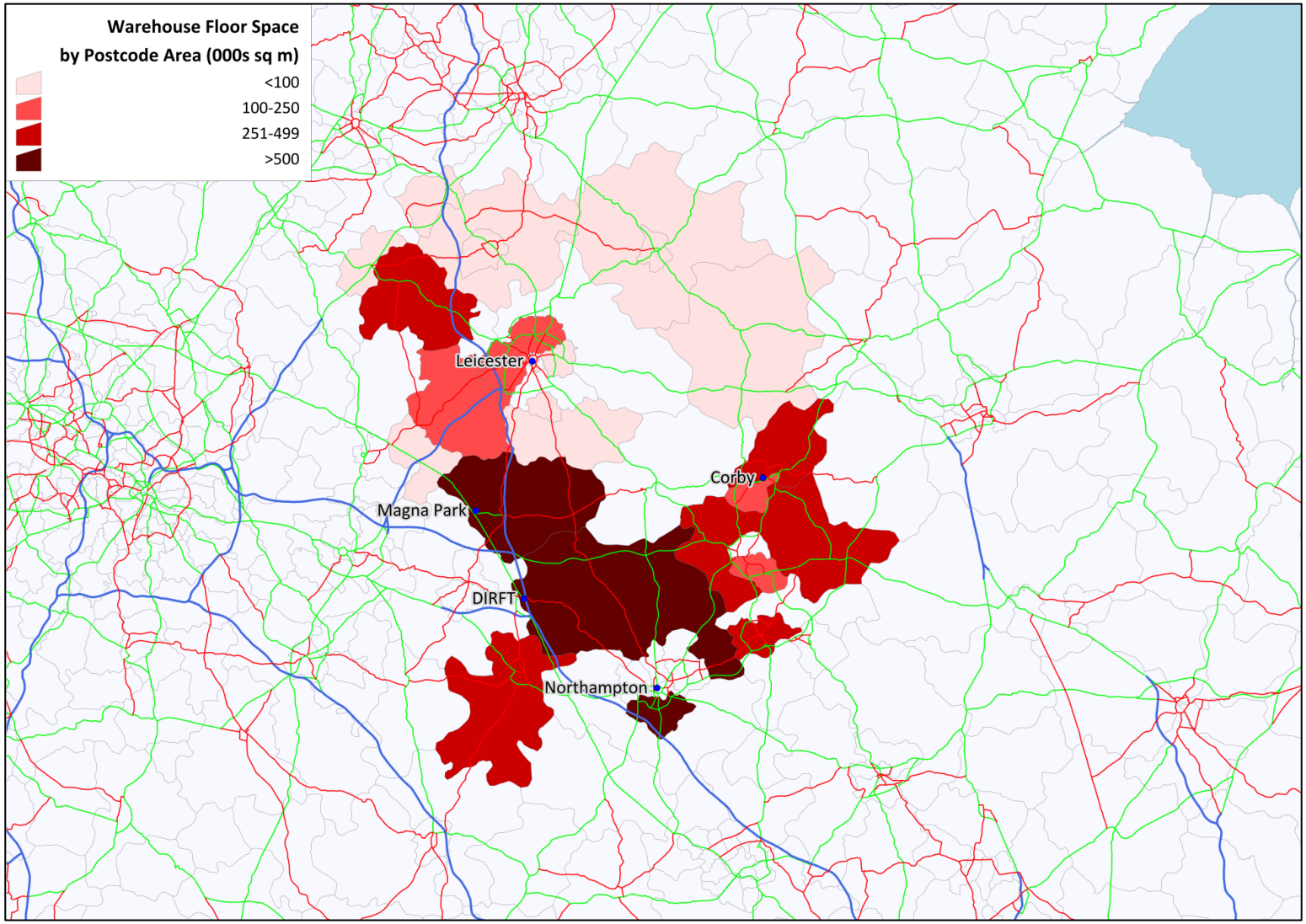
Table 4.3: Current Large Scale Warehouse in Leicestershire and Northamptonshire by Postcode Area

Postcode Area	Location	Floor Space (000s sq m)	Number Warehouse Units
LE17	Lutterworth (Magna Park)	1,001	33
LE67	Coalville	287	13
LE3	Leicester	204	9
LE9	Leicester	177	2
LE4	Leicester	104	5
LE10	Hinckley	83	4
LE12	Loughborough	51	2
LE65	Ashby	51	3
LE15	Oakham	51	3
LE8	Leicester	41	3
LE13	Melton	41	1
LE19	Narborough/Leicester	40	3
LE18	Wigston/Leicester	28	1
LE5	Leicester	24	1
LE1	Leicester	22	2
LE14	Melton	21	2
DE74	Kegworth/Castle Don	13	1
LE11	Loughborough	12	1
Total Leicestershire		**2,250**	**89**
NN4	Northampton	1,035	37
NN6	Crick (DIRFT)	520	19
NN11	Daventry	392	13
NN17	Corby	332	13
NN14	Kettering	309	9
NN8	Wellingborough	290	10
NN18	Corby	161	8
NN15	Kettering	104	2
Other NN		403	23
Total Northants		**3,545**	**134**

Source: Source: MDS Transmodal Warehouse Database (derived from VOA business ratings data) as at January 2014.

NB: Warehouse capacity presented by Postcode Area and not by local government/planning authority. The location indicated in the table above is therefore the main urban area covered by the particular Postcode Area (and not local government), noting that they can straddle multiple urban areas.

Map 4.1


Warehouse Floor Space
by Postcode Area (000s sq m)
<100
100-250
251-499
>500
Leicester
Corby
Magna Park
DIRFT
Northampton

4.8 Within Leicestershire, the main concentrations of warehousing are around Lutterworth (Magna Park), Leicester and Coalville. In Northamptonshire, the largest concentrations of large scale floor space are around Northampton and Crick (DIRFT Strategic Rail Freight Interchange). However, a sizeable amount of floor space is also identified around Corby, Kettering and Wellingborough i.e. along the A14 corridor to the east of what is commonly regarded as the golden triangle.

4.9 With respect to *rail-served floor space*, the data indicates that around 520,000 sq metres of existing floor space capacity assessed above is located on a directly rail-served site (DIRFT SRFI). This represents around 6.5% of existing regional capacity.

4.10 While the mean size per unit in Leicestershire is just over 25,000 square metres (and around 26,500 square metres in neighbouring Northants), the floor space in the largest units is considerably larger. In fact, there is a great deal of evidence to suggest that many distributors, driven by modern ICT, stock control and automated handling systems, have been gaining economies of scale by developing very large warehouse units, which in most cases have replaced two or more smaller distribution centres. This is reflected in the table below, which shows that there are 17 units in Leicestershire and neighbouring Northamptonshire which are larger than 50,000 square metres.

Table 4.4: Warehouses in Leicestershire and Northamptonshire over 50,000 square metres

Warehouse Address		Postcode	County	Floor Space (sq m)
Plot 5320/5420, Hawke Way	Magna Park	LE17 4XN	Leicestershire	111,349
Plot 5410, Hunter Boulevard	Magna Park	LE17 4XN	Leicestershire	103,075
Peckleton Lane	Desford	LE9 9JT	Leicestershire	102,781
Sunningdale Road	Leicester	LE3 1UX	Leicestershire	99,020
Liliput Road	Northampton	NN4 7EY	Northamptonshire	89,868
Plot 1400, Hunter Boulevard	Magna Park	LE17 4XN	Leicestershire	83,602
Gowerton Road	Northampton	NN4 8PJ	Northamptonshire	78,254
Desford Road	Kirby Muxloe	LE9 2BJ	Leicestershire	74,191
Huntingdon Road	Thrapston	NN14 4NJ	Northamptonshire	72,984
Plot 1, North Kettering Business Park	Glendon Road	NN14 1QF	Northamptonshire	72,984
Lammas Road	Corby	NN17 5JF	Northamptonshire	72,452
1, Saxon Drive	DIRFT	NN6 7EA	Northamptonshire	70,714
Altendiez Way	Burton Latimer	NN15 5YZ	Northamptonshire	67,893
Royal Oak Way North	Daventry	NN11 8PQ	Northamptonshire	66,747
Beveridge Lane	Bardon Hill	LE67 1TB	Leicestershire	60,829
Nectar Way	Swan Valley	NN4 9BX	Northamptonshire	60,829
Unit 3, 15/23 Claudius Way	Victoria Business Park	NN8 2DH	Northamptonshire	51,844

Source: Source: MDS Transmodal Warehouse Database (derived from VOA business ratings data) as at January 2014.
NB Data does not include East Midlands Distribution Centre at Castle Donington, which has become operational since the data was compiled.

Summary and Key Messages

4.11 The East Midlands region hosts just over *8 million square metres* of floor space across 334 large scale warehouse units. The average size of a warehouse unit is around 24,000 square metres.

4.12 Whilst the East Midlands region records around 8% of the population of England and Wales, it accommodates 20% of total English and Welsh warehouse capacity. The region has attracted a quantum of warehouse floor space significantly above that which is required to handle the volume of cargo distributed into the East Midlands regional economy. The above analysis would suggest that around 65-70% of the region's floor space is playing a national rather than regional role. As noted earlier, the southern part of the East Midlands region became the preferred location for large scale NDCs, as these figures demonstrate this position.

4.13 72% of East Midlands floor space capacity is located in Northamptonshire or Leicestershire. In Leicestershire itself, around 2.25 million square metres of floor space across 89 warehouse units are identified. Within Leicestershire, the main concentrations of warehousing are around Lutterworth (Magna Park), Leicester and Coalville. In Northamptonshire, the largest concentrations of large scale floor space are around Northampton and Crick (DIRFT Strategic Rail Freight Interchange). However, a sizeable amount of floor space is also identified around Corby, Kettering and Wellingborough i.e. along the A14 corridor to the east of what is commonly regarded as the golden triangle.

4.14 Around 520,000 sq metres of existing floor space capacity (6.5% of regional total) is located on a directly rail-served site (DIRFT SRFI).

5. KEY LOCATIONAL CHARACTERISTICS

5.1 New strategic logistics sites developed in the Leicestershire sub-region must be commercially attractive to the logistics market. The provision of commercially attractive sites will play a key role in meeting the future needs of the logistics market, while at the same time maintain and enhance the identified competitive position of the East Midlands in the logistics sector.

5.2 Commercially attractive strategic logistics sites are considered to be ones which meet the following criteria:

- Good connections with the strategic highway network;
- Appropriately located relative to the markets to be served;
- Offers modal choice; is served by a railway line offering a generous loading gauge (minimum W9), available freight capacity and connects to key origins/destinations directly without the requirement to use long circuitous routes;
- Is sufficiently large and flexible in its configuration so that it can accommodate an intermodal terminal and internal reception sidings;
- Is sufficiently large and flexible in its configuration so that it can accommodate the size of distribution centre warehouse units now required by the market;
- Is accessible to labour, including the ability to be served by sustainable transport, and located close to areas of employment need; and
- Is located away from incompatible land-uses.

Good Strategic Highway Connections

5.3 Road transport will remain the dominant mode, as for most goods flows it will remain the most feasible and cost effective form of transport. This means that the majority of cargo arriving and departing distribution centres located on rail-connected logistics sites will be by road transport. At a rail-served logistics site comprising around 400,000 square metres of floor space serving a national hinterland, even where rail freight services work to their full potential approximately 1,800 inbound and outbound HGV trips per day can be expected (including intermodal units arriving/departing by rail but serving shippers and distribution activities located off site by road)[8].

5.4 For this reason, a commercially attractive strategic logistics site and intermodal terminal facilities must have good access to the highway network. This effectively means being

[8] Broadly similar levels would be expected at a road-only site. At a rail-served site, road based traffic to/from the warehousing is lower compared with a road only site (i.e. balance being by rail) albeit that there will also be intermodal units arriving/departing by rail but serving shippers and distribution activities located off site by road.

located adjacent to a junction on the motorway or long-distance dual carriageway network (e.g. A14), or within a few kilometres of such a junction via a highway capable of accommodating significant volumes of HGV traffic.

Appropriately Located Relative to Markets

5.5 This criteria is essentially self-explanatory - it is important that strategic logistics sites are well located relative to their intended markets. This enables the efficient and sustainable operation of inbound and outbound transport services.

5.6 As noted in Section 2, sites intending to serve regional markets (i.e. RDCs) will need to be located close to the main conurbations of Britain, in order to minimise re-distribution transport costs. This is where the main end-delivery points are located (normally retail outlets), and being in such a location allows the efficient operation of HGV equipment. Logistics operators will seek to achieve (on average) at least two delivery trips within a driver's shift (effectively four delivery trips per day per HGV given night time operation).

5.7 Developments serving a national market (i.e. NDCs) generally require a central location in relation to the main origins and destinations of cargo, which normally means the deep sea container ports and Channel ports and RDCs in most other regions. This offers the ability to round-trip a HGV within a driver's shift limit. In the case of rail-served sites, this means being located on a railway route which has the ability to receive/despatch full length trains direct to the deep-sea container ports, the Channel Tunnel, the north of England and Scotland, without the need to use long circuitous routes.

Modal Choice

5.8 The ability to access reliable and cost competitive rail freight services is becoming a key commercial requirement of the logistics industry, particularly distribution into and out of large scale NDCs. While such modal shift is acknowledged to generate wider environmental or sustainability benefits, the main driving factor for distributors is the financial benefits which can be derived. The development of competitive rail-linked strategic distribution sites is a crucial component in meeting this requirement. Further, the development of such sites will play a crucial role in maintaining and enhancing the region/sub-region's identified competitive position in this sector.

5.9 Road haulage is the dominant mode of transport for consumer type cargo passing through large scale distribution centres. The road haulage industry has, to date, provided the cost efficiency, quality and flexibility required by the logistics market, primarily as a result of road haulage being an open, competitive private sector industry. The relative cost of transporting

goods by road, however, has been increasing, and this trend is likely to continue over the medium to long term. This is due to a combination of EU/Government policy initiatives and other factors such as rising fuel prices and network congestion. In the longer term, distance based road charging, which takes into account wider environmental costs, and other forms of 'emissions charges' may further erode the competitive position of the road haulage sector.

5.10 As a result, distributors of general consumer type cargo are seeking more cost effective transport solutions over the medium/long term in order to remain competitive. On a practical basis, this means logistics operators continuing to use road haulage as the main mode of transport, as it will remain the most practical and cost effective form of transport for most flows of goods, but with the ability to utilise other modes when it provides a more practical and cost effective option i.e. modal choice. In most cases this means rail freight services, and as a result the logistics market is demanding/requiring greater access to reliable and cost competitive rail freight services, and this demand/requirement is likely to grow over the medium to long term.

5.11 Evidence for this is provided by a number of sources. Firstly, the maritime container sector has seen large growth rates over the past decade in the use of rail, particularly on flows from the deep sea ports to the English Midlands and north of England (as described in Section 3 above). Secondly, a number of major retailers have begun to contract rail services to transfer goods from their warehouses in the Midlands to their Scottish distribution centres e.g. Asda and Tesco. Sainsbury's have recently opted to build a new NDC at DIRFT, taking advantage of the site's rail terminal (as described in Section 3 above).

5.12 Locating strategic distribution activity at rail-served sites allows cargo to be loaded or discharged directly from railway wagons without the need to use any intermediate road transport. Given the ability to assemble a full-length train, rail freight costs on a per kilometre basis are lower than road transport costs. Where the origin or destination is not rail-served, a road haul via the public highway network is required to transfer cargo to/from a suitable rail terminal. This additional transport leg (and handling) adds costs into the supply chain, thereby rendering rail more expensive when compared with road transport operating directly from origin to destination (except for long distance flows).

5.13 Consequently, where cargo flows are from a rail connected origin e.g. deep-sea container port to a rail-connected distribution centre (no road hauls), rail freight generally is always cost competitive compared with road transport over any distance given adequate volume to fill a daily full-length train. However, where one end of the trip is not rail-served, e.g. deep-sea container port to a non rail-connected distribution centre (and therefore requiring a road haul from a suitable rail terminal), rail freight generally becomes cost competitive with road transport at distances over 250km. Where both ends are non rail-served (i.e. a road haul is required at both ends of the journey), rail freight generally becomes cost competitive at distances over 400km.

5.14 However, being located alongside the railway network is only part of the equation, and there are a number of other rail connectivity issues to consider which will impact on the competitiveness and viability of individual sites. Essentially not all sites with a rail connection will be appropriate i.e. competitive. Commercially attractive rail-linked strategic logistics sites will be those where the adjoining railway line:

- Offers a generous loading gauge;
- Has available freight train capacity; and
- Connects to key origins/destinations directly without the requirement to use long circuitous routes.

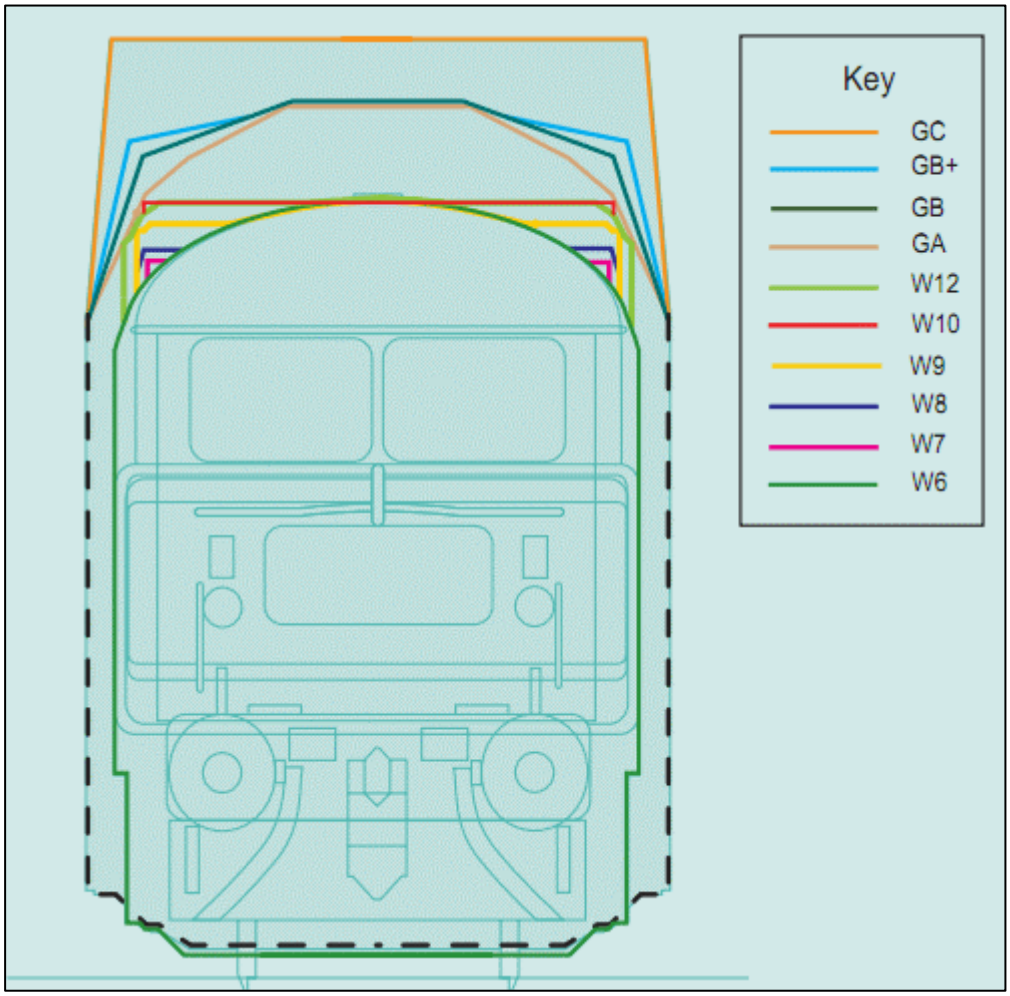
5.15 The physical definition of the maximum height and width in cross section of a railway line is called its *loading gauge*. The size of the loading gauge of a particular section of track will determine the size of rail freight wagon (or combination of intermodal platform wagon plus intermodal unit) that can be conveyed on that section of line. The size of the loading gauge is determined by lineside features such as overbridges, tunnels, overhead power lines, signal gantries and platform edges. The physical dimensions of a rail freight wagon or intermodal wagon/intermodal unit combination must be within the loading gauge profile to ensure that it will not collide with any of these lineside features. Obviously the higher the bridges and tunnels etc. the larger the freight wagon that can be conveyed.

5.16 There are seven different loading gauge profiles on the British railway network. The least generous is the *W6a* profile, which can only accommodate so called conventional freight wagons (most bulk type wagons used to convey coal, minerals etc..). The minimum requirement for intermodal traffic is the *W8* loading gauge profile. However, this profile can only accommodate standard height maritime containers (2.59m/8'6") and not the high-cube units now used on most deep-sea and intra-European shipping routes (2.9m/9'6" tall).

5.17 The *W9* loading gauge is the minimum gauge which can accommodate these intermodal units, albeit only on certain types of platform wagon. The *W10/W12* loading gauges can accommodate the full range of units on all standard platform wagons with a deck height up to 1.0m i.e. those used by most of the major traction operators. An appropriate site is therefore one where the adjoining railway lines and the approach routes are gauge cleared to at least W9, and preferably to *W10 and W12*. It is around such sites that rail freight operators will develop their own service strategies, and property developers will wish to develop rail linked distribution parks. Network Rail is currently completing a series of upgrades to key strategic routes (to at least W10). At present, this does not include the Midland Main Line (MML), however the so called 'electric spine' proposals will subsequently provide a W10 cleared route on the MML north of Bedford (likely to be from 2019 – see Part B report).

5.18 The diagram below shows the different Network Rail loading gauges (W6a-W12) alongside the more generous loading gauge profiles (GA to GC) more generally available in mainland Europe (HS1 from the Channel Tunnel is GB+).

Loading Gauge Profiles



5.19 *Route capacity* is a key issue, particularly where passenger train growth could potentially squeeze out surplus capacity which could be utilised by freight. The Route Utilisation Strategies (RUSs) undertaken by Network Rail have attempted to address the issue of capacity. Clearly there has to be sufficient train path capacity available so that freight train service providers can operate trains to serve rail-served strategic logistics sites. This includes key strategic trunk routes and final approach routes into a site. Commercially attractive sites are generally recognised to be those where the adjoining railway lines are able to provide at least one freight path per off-peak hour per direction.

5.20 Strategic logistics sites ideally should connect to key origins/destinations directly (e.g. deep-sea container ports, Channel Tunnel etc..) without the requirement to use long circuitous routes. Similar to some motorway interchanges, access between different railway lines at junctions can be restricted to certain directions due to the layout/alignment of the tracks together with the number/type of crossovers and chords installed at the junction. If direct access is not possible, it results in freight trains having to pass a junction and then change direction (by means of a locomotive 'run round') so that they can enter the junction in the right direction. Alternatively a train could take a long diversionary or circuitous route so that the junction is approached in the right direction. These add both time and costs to a rail freight service and, in addition there are also capacity issues if a main line has to be used for a locomotive run round. Those sites able to offer direct rail access, without the need to reverse or use a circuitous route will gain competitive advantages compared to other sites.

5.21 Despite the above market conditions, it will be unrealistic in both planning and logistics terms to expect all new large scale distribution activity to locate at a directly rail-served site. Firstly, existing land supply and planning consents have to be considered – there are existing sites with consents for B8 or allocated in local plans for distribution employment. Secondly, not all warehouse occupiers will benefit from or be of a nature to be attracted to the rail terminal facilities offered at rail-served strategic distribution sites. On that basis, there will still be a need to plan for commercially attractive strategic logistics sites which are not connected to the railway network. Such sites can therefore be considered ones which meet all the other criteria outlined in this section, bar the modal choice requirements outlined above and the rail terminal facilities criteria discussed in the sub-section immediately below.

Large and Flexible Configuration: Rail Terminal Facilities

5.22 Rail-served commercially attractive strategic logistics sites will be those sufficiently large and flexible in their configuration to provide:

- An Intermodal terminal; and
- Internal reception siding rail facilities.

5.23 Rail terminal facilities at strategic logistics sites can be achieved in two ways. Firstly, locating distribution centres on the same site as an intermodal terminal. Goods arriving in an intermodal unit (e.g. maritime container) at the intermodal terminal by rail are transferred to the on-site warehousing via internal road shunts i.e. by means of yard-tractors and avoiding use of the public highway. Secondly by directly rail linking through the provision of a siding along one side of the warehouse. This type of rail connectivity relies on the use of conventional box wagons. Box wagons are shunted into the warehouse siding, and the goods then transferred directly from the wagons to storage by forklift truck equipment, again

avoiding the need for a local road haul. The provision of a rail link by means of an intermodal terminal option, however, is by far the more important form of rail connectivity that is demanded by the market, and is therefore regarded as the minimum requirement. Consequently, competitive sites will in future be those which are able to accommodate intermodal terminal facilities.

5.24 The ability to accommodate reception sidings is also an important feature of a competitive logistics site. Reception sidings effectively act as a place to 'park' trains off the main line before and after cargo handling at an intermodal terminal or rail connected warehouse. Reception sidings are required at a rail freight terminal for four main reasons:

- Due to pathing and timetabling constraints, trains will normally arrive at a rail freight terminal well before they are required for cargo handling. Hence they require somewhere to 'park' while they await their turn in the actual cargo handling part of the rail terminal.
- Once a train has been loaded/unloaded and is ready for departure, it requires somewhere to await the arrival of a mainline locomotive. Completion of cargo handling can be well before the mainline locomotive arrives,
- The cargo handling sidings, either at the intermodal terminal or rail connected warehouse, are unlikely to be long enough to accommodate the whole train. Trains will therefore need to be 'sectioned' at some point before they can be accommodated in cargo handling sidings.
- As a reception siding would not normally belong to Network Rail, the terminal operator is not reliant on main line locomotive traction providers to undertake shunting or sectioning of trains, and can undertake these operations themselves by employing the use of their own 'off main line' shunting equipment. This improves the efficiency and throughput capacity of a terminal.

Large and Flexible Configuration: Warehouse Units

5.25 The size of a strategic logistics site and its configuration is an important factor for two main reasons:

- For directly rail-served sites, it contributes towards the viability of rail freight services to and from that site; and
- Sites need to be big enough to accommodate the large scale distribution centres that are be required by the market (equally applicable to non rail-served sites).

5.26 A commercially attractive rail-linked site is considered to be one which is large enough and flexible in its configuration to provide *at least 200,000 square metres* of floor space in total and individual plots with the ability to accommodate very large warehouses *up to 100,000 square metres in size* (plot of 25ha on the basis that floor space is around 40% of total plot

footprint). Taking into account the need for the rail terminal facilities, this suggests that new rail-served strategic logistics sites will need to be *at least 50ha in size* (sites above 60ha being considered nationally significant infrastructure, and are therefore considered via the Development Consent Order process).

5.27 In addition to the cost of rail freight compared with road haulage, rail as a mode will only be attractive to the occupiers of the distribution centres on a logistics site if the site is able attract frequent full length rail freight services to/from a wide range of locations. In practice, this means daily train services to/from the main deep-sea container ports and other (twice daily with Felixstowe and Southampton) along with other key cargo origins, including Scotland for national distribution. This implies around 8 train services in total.

5.28 Given that floor space is proportional to cargo throughput, larger logistics sites will therefore be able to attract greater number of rail services compared with smaller development. The minimum site size therefore able to generate 8 daily inbound trains is around 200,000 square metres, as follows:

- Pallet capacity of 300,000 (at 1.5 pallets per square metre);
- Annual pallet throughput of 3.6 million (at 12 stock turns per annum);
- Annual number of unit loads to site being 138,462 (at 26 pallets per unit)
- Daily number of unit loads to site being 413 (at 335 days per annum);
- Units loads by rail at 206 (50% rail/road modal split);
- 8 trains inbound per day (at average of 25 units per train).

5.29 Individual plots with the ability to accommodate very large warehouses *up to 100,000 square metres in size* will also be required (plot of 25ha on the basis that floor space is around 40% of total plot footprint). This was demonstrated in the analysis presented in Section 4 above.

Labour Supply

5.30 Distribution activity can be labour intensive (see Section 6 below for detail). Despite the automation of many logistics functions, most distribution warehouses still rely on manual labour for many of their activities. These include:

- Using a forklift truck to move pallets of cargo from an inbound HGVs/intermodal units to pallet racks in the correct storage area in the warehouse;
- Inputting data covering inbound cargo into the warehouse's inventory management systems (often undertaken using hand held barcode reading devices);
- Picking goods from storage to the correct order and consolidating them with other goods ready for loading to outbound HGVs/intermodal units;

- Recording the outbound movement of goods on the inventory management system; and
- Loading pallets onto outbound HGVs/intermodal units.

5.31 In addition to these tasks, there are the usual administrative jobs associated with large labour intensive industries e.g. Payroll, Human Resources. Drivers for the delivery HGVs based at the warehouse will also be required. Intermodal terminals require gantry crane operators, yard tractor drivers, HGV drivers and security staff. Based on the data in Section 6 below, a logistics site incorporating 200,000 square metres of distribution floor space will require up to 2,000 staff just for the warehousing, plus HGV drivers and employees for the intermodal terminal.

5.32 Consequently, a commercially attractive strategic logistics site will be one which is located as follows:

- In or near areas of 'employment need';
- In areas with below average wage rates;
- Where labour is available with the required qualifications; and
- With reasonable travel to work distances and can be served by sustainable transport.

Located Away From Incompatible Land-uses

5.33 Distribution activity needs to operate 24 hours per day, seven days per week. However there are noise and visual impacts associated with distribution. Where possible, deliveries by HGV are normally undertaken during the night when traffic congestion is minimal. Distribution centres therefore need to be accessed during night time hours. Rail freight facilities, parking areas for road trailers or areas where containers are stacked need to be illuminated during the hours of darkness for both practical and safety reasons. Large flood lights therefore need to be erected. Many freight trains also run at night when conflicts with passenger services are minimised. Rail freight facilities at a logistics site will therefore need to receive, despatch and handle trains at night time. All of these activities, and others which occur, cause noise and visual pollution. Commercially attractive logistics sites are therefore located away from residential areas, for the above given reasons, so that 24 hour operation is possible.

6. EMPLOYMENT AND LABOUR IN THE LEICESTERSHIRE STRATEGIC DISTRIBUTION SECTOR

Section 6.1: Employment and Skills

Employment Numbers

6.1 The logistics industry is an important provider of jobs, either directly or indirectly. Nationally, direct employment in the sector accounts for nearly 6% of the workforce. This rises to over 8% (9.4% within Leicestershire) if the indirect employment of the logistics functions of other industries is taken into account (Data derived from Annual Population Survey 2011 and Annual Business Inquiry 2007). This accounts for approximately 2.25 million people employed in the sector nationally and 15,275 within the East Midlands. The indirect employment resulting from logistics is difficult to quantify; Skills for Logistics identifies that up to 10-12% of jobs in most regions to be logistics related when indirect employment is taken into account.

6.2 In UK employment terms this puts logistics at approximately the same size as the construction industry and just under half the size of the manufacturing sector. However, as manufacturing employment in the UK is to continue to decline, by becoming increasingly automated or moving to cheaper locations overseas, the distribution of goods (intra-regionally or internationally) has become an increasingly vital part of the UK economy.

6.3 Data provided by the Office of National Statistics indicates that distribution employment has increased by approximately 1 million in the past 30 years compared to a decrease of 4 million in the manufacturing sector. The forecasts suggest that this growth will continue to accompany demand for distribution warehouses and Skills for Logistics[9] Working Futures IV projects that 820,000 additional workers will be needed in the sector in England by 2020; 39,000 in the East Midlands.

Employment Quality and Profile

6.4 There is a common misconception that the Logistics industry only provides poorly skilled, low wage employment with few opportunities to develop a successful career path. Although operatives and elementary positions account for 47% compared with 19% across the whole economy, it is predicted that recruitment for managerial positions in the period to 2020 will exceed recruitment in other occupational groups (Skills for Logistics 2009).

[9] Skills for Logistics is the Government licensed Sector Skills Council for the UK's freight logistics industries

As aforementioned, logistics is more complex than the seemingly simple movement and storage of goods and is not widely understood outside the industry. It forms part of complex supply chains, many of which are strategic and vital to the successful operation of a company. In general, logistics provides good quality jobs, with a full complement of skills throughout the length of the supply chain, as shown in Table 6.1 below.

Table 6.1: Labour composition of typical Logistics company

Sector	Position	Responsibility
Managerial	Contract manager	Profit and loss, driver staff and operational efficiency
	Transport manager	Organising delivery routing and ensuring maximum efficiency is achieved within budget
	Warehouse manager	Co-ordinating operations within the warehouse
	Operations manager	Prime responsibility for logistics operation, inc. staff development, business performance and strategic planning
	Freight forwarder	Movement of freight across international borders
	Logistics manager	Overall management of the supply chain
	Inventory specialist	Ensuring that the right stock is available at the right time
Non-managerial	LGV driver	(unlikely to ever have two days the same)
	LGV instructor	Ensuring that potential LGV drivers achieve the required proficiency level
	LGV technician	Maintaining an organisations' fleet of vehicles
	Warehouse operative	Part of team responsible for handling goods through from receipt to dispatch
	Fork-lift truck operator	Safe transportation of goods around warehouses
	Courier	Ensuring expedient delivery of urgent packages
	Transport clerk	Day to day responsibility for administration of the transportation operation
	Customer service assistant	Representing an organisation to its customers
	Removals porter	Working with a small team helping people to relocate
	Packers	Responsible for ensuring products are contained within suitable packaging to provide protection during transit.

Source: Skills for Logistics Council: Careers in Logistics

6.5 Only 6% of the workforce logistics are aged under 25 compared with 13% over the whole economy. This may in part be due to negative perceptions and lack of awareness of opportunities and in part the tendency for the sector to recruit predominantly from within the sector. In addition the workforce is ageing, with 44% ages 45 and over. This is likely to lead to a shortage in staff as there will be an insufficient intake of young people to satisfy replacement demand in addition to the recruitment needed to provide for growth in the sector. The Skills for Logistics Sector Skills Council report that 1-in-9 employers in the sector report at least one vacancy and have concerns in relation to future recruitment.

6.6 Typically, logistics property provides better quality jobs than light industrial space. Research undertaken by Prologis over 32 warehouses employing nearly 6,000 people found only 5% were unskilled. Savills' industry experience indicates that large distribution warehouses invariably incorporate a proportion of office space integral to the operations of the warehouse and thus increasing the proportion of managerial, professional and administration occupations. Many distribution locations therefore see the occupation of relatively large office space, which would not generally be the case in the local market if the offices were not connected to the distribution function.

6.7 A snapshot review of jobs conducted on 24th February 2014 in the logistics sector in Leicestershire advertised on the Careers in Logisitics' website showed 28 available positions. Of these 54% were in managerial roles, 40% were for drivers whilst the remainder were for warehouse operative and transport planner.

6.8 34 of the 56 jobs (61%) advertised on 'The Logistics Website' job search on the same day were for managerial positions and of these 8 were offering salaries in the region of £100,000 per annum.

6.9 The Department for Work & Pensions' '*Universal Jobmatch*' service tracked for a one month period in 2013 showed the following UK wide availability. This further illustrates the demand for higher quality roles and the employment growth within the sector.

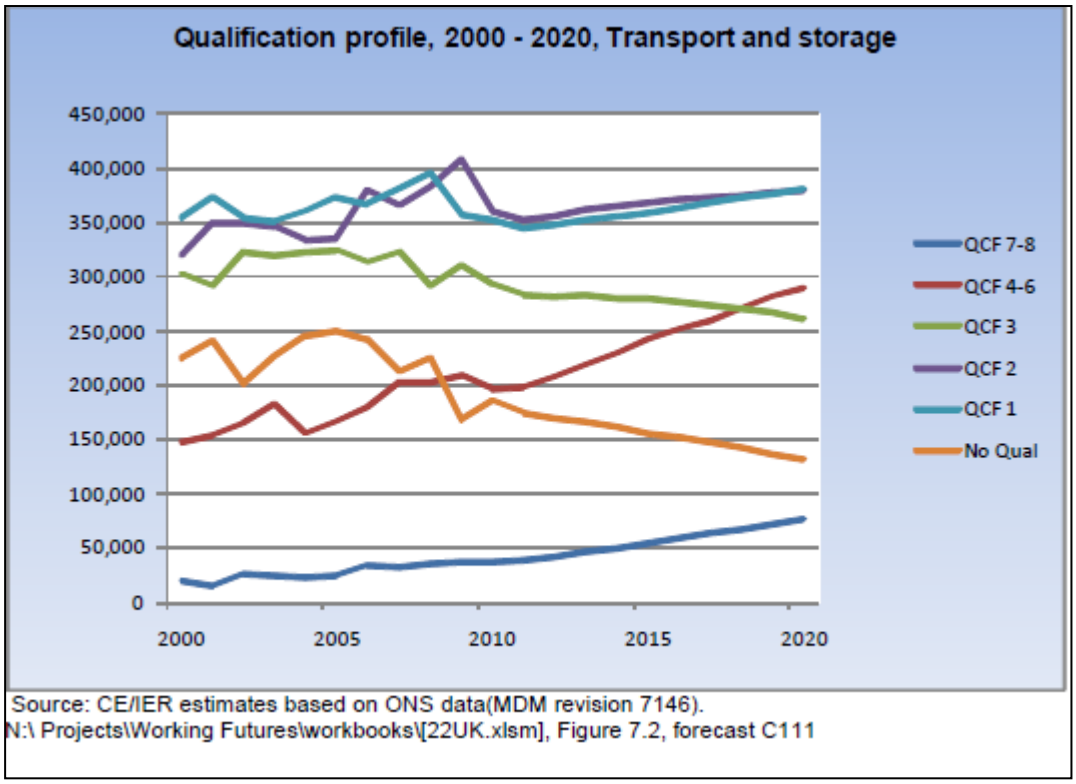
Table 6.2: Universal Jobmatch – National Availability

Job Role	27th Jan - 2nd Feb	3rd Feb - 9th Feb	10th Feb – 16th Feb	17th Feb – 23rd Feb	24th Feb – 2nd March
Transport Manager	10,081	10,857	11,341	11,933	13,113
Inventory Clerk	1,885	2,029	2,007	1,976	2,074
Distribution Clerk	1,632	1,708	1,543	1,594	1,858
Lorry Driver	1,374	1,315	1,282	1,241	1,332
Postal Clerk	832	809	832	849	898
Forklift Truck Driver	601	644	664	659	731
Delivery Driver	239	218	200	176	182

Source: Universal Jobmatch

6.10 The Working Futures Sectoral Report August 2012 states that although the occupational structure in Transport and storage favours those qualified at intermediate and low level this is expected to fall by 2020 whilst those with higher qualifications is likely to rise from 15% (2010) to 25% by 2020. The qualification profile change within the sector is shown in Figure 6.1 below.

Figure 6.1



6.11 The numbers employed in the major occupational groupings, compared to all sectors nationally, are shown in Table 6.2 below. It is the case that the proportion of the workforce employed in distribution having no qualifications or who are qualified at less than NVQ level 2 standard is greater than the rest of the UK economy. However, this is balanced out in other higher skilled areas and is partly reflective of the ageing workforce in logistics. Recruitment drives and attraction of 'new blood' however are increasing at an accelerating rate as the image of the industry improves and its growing importance to the economy realised.

Table 6.3: Major occupational groups within the UK Logistics sector

	Logistics	All Sectors (UK)
Managers, Directors and senior Officials	14%	10%
Professional Occupations	4%	19%
Associate Professional and Technical Occupations	11%	14%
Administrative and Secretarial Occupations	13%	11%
Skilled Trade Occupations	3%	11%
Caring, leisure and Other Service Occupations	1%	9%
Sales and Customer Service Occupations	6%	8%
Process, Plant and Machine Operatives	24%	6%
Elementary Occupations	25%	11%

Source: APS 2011

6.12 As the sector develops there will be an increased demand for technology and IT professionals, including social network and web-based marketing capabilities. Skills for Logistics research has indicated that where employers have had difficulty recruiting the primary reason given (43%) was the low number of applicants with the required skills.

Employment Status

6.13 Research conducted by Prologis in 2010 which used a sample of 19 large scale warehouse occupiers showed part time workers to make up 12% of the total workforce compared to 27% of UK workforce in all sectors (Census 2011).

6.14 2011 Census data showed the average weekly hours worked by the Transport and Storage Industry (Standard Industrial Classification 2007) to be 35.6 hours per week compared to an all industry UK average of 31.8 hours per week and a range of 23.8 hours (Education) to 47 hours (Agriculture, Forestry and Fishing). In addition it cites the change in part time workers in the UK workforce from 24% in 1992 to 27% in 2011.

6.15 The Working for Futures Sectoral Report 2010 -2020 forecasts an increase in part time workers in The Transport and Distribution Sectors (SIC2007 headings: 49-53) from 13.6% in 2010 to 14.3% in 2015 and 15% in 2020. This compares to all sector averages of 20.6% (2010), 21.2% (2010) and 22% in 2020. This data does not indicate a larger than average number of part time workers employed in logistics despite the recognised use of seasonal part time workers.

6.16 The Freight Transport Association study conducted in association with PwC, – 'The Logistics Report 2012' referred to the tendency to use temporary staff to cover peaks but the 2013 report states those interviewed intended to reduce their use of part time staff.

6.17 Recent research conducted by the Department for Skills and Innovation and published in December 2013 in the consultation document 'Zero Hours Employment Contracts' found that the use of 'zero hours contracts' has increased over the last 5 years and that there are approximately 250,000 (0.8% of total employment) such contracts in use in the UK today. Although there is currently no legal definition of a zero hours contract it generally refers to a contract which does not oblige the employee to accept nor the employer to offer any work. Estimates from the Labour Force Survey quoted in the consultation document show 'Distribution, Accommodation and Food Services' as having the largest proportion of zero hours contracts. However this sector group includes the hotel and restaurant sector which has a very large number of employees on zero hours contracts.

6.18 Given the above data there is no reason to conclude that the percentage of zero hours contracts in the distribution sector exceeds the average across all sectors.

6.19 Census data of average weekly working hours, Prologis research and the growth in part time workers predicted by The Working for Futures Sectoral Report 2010 -2020 does not provide evidence to suggest that there is a larger than average number of part time workers employed in logistics.

Skills and Training

6.20 Skills for Logistics states that the UK Logistics Sector generally is poorly qualified; 44 per cent do not hold a Level 2 qualification. Furthermore 63 per cent of all machine operatives (drivers) are

6.21 not qualified to minimal skills level, nor are 55 per cent of elementary occupation (warehouse operatives, postal workers, couriers) and nor are 52 per cent of managers.

6.22 The UK Sector Skills Assessment for the Freight Logistics and Wholesale Sector report 2010 identified that employees in the Logistics Sector are more likely to not have any qualifications than the national average and are much less likely to have a degree than

average. At that time 17% of the Logistics workforce had a degree or above compared with 35% across all sectors

6.23 64% of employers thought that some of their staff would need to acquire new skills or knowledge over the next 12 months. Employers thought this for many different reasons, such as new legislation or the development of a new product. Employers also thought that it was managers who were most likely to need to gain additional skills. In line with the skills gaps, employers also thought that training was needed to provide technical, practical or job-specific skills. The below table shows percentage of the workforce not qualified to the minimum skills level.

Table 6.4: Workforce and Minimum Skills Level

Major occupational group	Examples of job role	Type of skills needs**	% of workforce not qualified to min skills level
Managers	Transport and distribution managers Storage and Warehouse managers	Technical, Customer service, ICT, Managerial (L&M) Communication	51%
Associate professional	Importers, Exporters. Buyers and purchasing officers	Customer service, ICT Communication	46%
Administration and secretarial	Transport and distribution clerks	Customer Service, ICT Communication	42%
Process, plant and machine operative	LGV and van drivers	Technical, Customer service, ICT (sat navs)	65%
Elementary occupations	Warehouse operatives, postal workers, couriers	Technical, Customer service, ICT	62%
Other Groups	Sales and customer service	Technical, generic	32%

** technical, generic, transferable

Sources: Skills for Logistics Sector Skills Assessments 2010, Skills for Logistics Employer Survey 2009 and Skills to Survive Report 2009, Skills for Logistics Employer Survey 2013

6.24 The sector generally undertakes training with local training providers or specialist logistics providers, with bite-sized non-accredited courses favoured. For example, of the 682,500 employees that had received training in the previous 12 months, only 16 trained towards a nationally recognised qualification.

6.25 46% of the companies that participated in the Skills for Logistics survey had provided some form of training in the previous 12 months for staff members. Size of company is a key factor in the likelihood of training taking place. Evidence shows that 41% of companies with fewer than 10 employees provided training, while 83% of those with more than 200 employees did so. This is significant in a sector dominated by small businesses.

6.26 An update employer survey conducted by Skills for Logistics and published in 2013 found that over 70% of employers had arranged or funded off-the-job training or informal training. Training has been offered in a range of areas, such as job specific training, health and safety, supervisory and management training. Although employers are positive about the next 12 months a significant proportion (69%) do not plan to move into new areas of work. They do however anticipate changes taking place, such as changes to government regulation and governance and addressing the green agenda and anticipate this will require new ways of working. A number of skills have been seen as important over the next 12 months such as job specific skills, teamwork, interpersonal skills, communication, organising and planning.

Salary Levels

6.27 The Skills for Logistics DBIS LMI Project for AACS, March 2011 gave a comprehensive overview of employment within the Logistics sector in the UK, with salary levels, broken down into seven industries. This is shown in the table below. Unfortunately, this data is not differentiated by regions/sub-regions.

6.28 The Freight Transport Association with PwC 'The Logistics Report 2013' reports that over the last 2 years the logistics sector has responded to the challenging economic conditions by pegging wage settlements to below inflation, reducing overtime and using temporary staff to cover peaks.

Table 6.5: Data from Skills for Logistics (DBIS LMI Project for AACS, March 2011)

Industry	Percentage UK Logistics Workforce	Pay Scale Lowest	Highest	Skills Shortage	East Midlands Employment Numbers
Air Freight	1%	£10k Air Import operator	£40k Manager	No	1,800 (est)
Wholesaling	48%	£10k Sales Assistant	£70k Sales Manager	Yes	67,400 (41%)
Road Haulage	13%	£8k Diver's Mate	£60k Supply Chain Manager	Yes	19,400 (12%)
Storage and Warehousing	8%	£12k Warehouse Assistant	£40k Warehouse Manager	Yes	29,800 (19%)
Freight Forwarding	8%	£11k Van driver	£39k Transport Manager	Yes	14,400 (9%)
Postal Services	14%	£12k Van Driver	£30kLGV Driver	Yes	17,000 (11%)
Couriers	5%	£11.5 k Courier	£25k Experienced Motorcycle Courier		6,800 (4%)

Employment Densities

6.29 OffPAT and the Homes and Communities Agency produced an Employment Densities Guide in 2010 (2nd Edition) to assist with the estimation of employment generated by property development. Employment density ratios are expressed as number of square metres per Full Time Equivalent (FTE) employee. Employment densities for B8 uses are shown in the table below. Unfortunately, this data is not differentiated by regions/sub-regions.

Table 6.6: Employment Density Ratios

Use Class	Use Type	Area FTE (sq m)	Floor Area Basis	Potential Variation
B1 (c)	Light Industry (Business Park)	47	NIA	
B2	General	36	GIA	Range of 18-60 sq. m
B8	General	70	GEA	Range of 25 – 115 sq m. The higher the capital intensity of the business, the lower the employment density.
B8	Large Scale and High bay Warehousing	80	GEA	Wide variations exist arising from scale and storage duration.

6.30 There are wide variations within the sector. Research conducted in 2006 and 2010 by developer, Prologis, showed that over this time period the nature of employment within distribution centres had changed; the numbers of administrative or support staff, managerial positions, IT and customer services had increased. This coincides with a decrease in employment density ratio from 95 sq m per person in 2006 to 77 sq m in 2010.

Employment in the Logistics Sector in Leicestershire

6.31 Leicestershire benefits from its central location in Great Britain, a sizeable population of circa 650,500 (Census 2011) and its excellent transport links. Wage levels within the county, at £473.40 gross weekly, are lower than the national average and in line with mid-range salary levels commanded in the logistics sector. Educational levels are broadly in line with the national average; within Leicestershire 7.7% have no qualifications compared to 9.3% in the East Midlands and 9.7% in the UK. 5.9% of the population in Leicestershire have 'other qualifications' compared to 6.9% in the East Midlands and 6.3% in the UK. Within Leicester City 14.2% have no qualifications and 10.3% have 'other qualifications'.

6.32 Skills for Logistics give data for the East Midlands which states an employment figure of 156,600 workers in the region employed in the in the logistics sector. However East Midlands data will include distribution centres in Northamptonshire.

6.33 The LLEP Economic Growth Plan 2012-2020 gives a figure of 51,300 jobs in the LLEP area in distribution and logistics, accounting for 11.6% of local employment. It identifies the high levels of employment in North West Leicestershire and the Harborough District at Magna Park. In addition it cites the ONS annual business inquiry employee analysis which shows that

7.7% of jobs are in transport and communication within Leicestershire compared to 5.5% in the East Midlands and 5.8% in Great Britain. These statistics serve to underline the importance of the sector to the county.

6.34 A breakdown of percentage total employment in transport and storage by local authority is shown in the table below.

Table 6.7: Percentage of Total Employment in Transport and Storage in Leicestershire

Local Authority	% of Total Employment
Blaby	11%
Charnwood	9%
Harborough	27%
Hinckley Bosworth	10%
Melton	8%
NW Leicestershire	24%
Oadby and Wigston	9%
City of Leicester	7%
LLEP area	12%
England	9%

Source: Business Register & Employment Survey 2012 (includes wholesale activity)

Employment Forecasts

6.35 Workplace jobs forecasts in B8 Warehousing, 2010-2031 broken down to district levels have been derived from Office for National Statistics (Census of Population, Business Register Employment Survey, Labour Force Survey, and respective antecedents, 1971-2010) were used by PACEC in the Leicester and Leicestershire HMA Employment Land Study.

Table 6.8: Treasury Forecasts May 2012

	Workplace Jobs (000s)			
District	2012	2021	2026	2031
Blaby	4.8	5.1	5.2	5.3
Charnwood	3.7	3.2	3.2	3.1
Oadby and Wigston	1.2	0.9	0.9	0.9
Harborough	5.9	7.4	7.9	8.2
Hinckley and Bosworth	3.3	2.7	2.6	2.5
Melton	1.1	1.0	1.0	1.0
North West Leicestershire	9.6	11.4	12.0	12.3
Leicester	19.3	19.5	19.7	19.7

Published in January 2013 by PACEC in the Leicester and Leicestershire HMA Employment Land Study

6.36 Those areas predicted to show the greatest increase in workplace jobs coincide with the anticipated increase in demand for 'super-size' road-rail linked warehouses in the Leicestershire M1 corridor.

6.37 Generally since 1991 industrial employment in the region has been in decline whilst warehousing employment has increased. The 2008 PACEC Study gave a detailed summary of employment change in each district over this time period. In accordance with the above job forecasts this trend has been most pronounced in Harborough and NWL.

6.38 PACEC Use Class job forecasts were calculated by drawing up a correspondence between the Standard Industrial Classification (SIC) and the office, industrial, and warehousing land use classes. There are methodological shortcomings in terms of mapping SIC to use classes and more accurate data can be derived by attributing a percentage of B8 use to each relevant industrial sector (identified in the 2007 Standard Industrial Classification). Notwithstanding this PACEC's proxy gives a useful indicator of trends.

Section 6.2: Contribution to the Regional Economy

6.39 The total Gross Value Added (GVA) of the LLEP area in 2012 was £17,949 million, which comprises approximately 1.4 % of total GVA across all the Local Enterprise Partnership (LEP) areas in England (£1,261,571 million)[10]. The same dataset also shows that GVA attributable to wholesale/retail, transport/storage and food activities was £3,794 million or around 21% of

[10] Source: ONS - GVA by Industry Type at LEP Area Level, April 2014

the LLEP area total. Unfortunately, the ONS dataset by LEP area does not disaggregate the GVA figures beyond the industrial groupings shown above.

6.40 Overall, output from distribution-related activities has been out-performing manufacturing and this is set to continue in the foreseeable future. Table 6.9 outlines the change in contribution to Leicestershire GVA of the distribution sector compared to production from 1997 to 2011 (as per above, the ONS dataset does not disaggregate the GVA figures beyond the industrial groupings shown above). It can be seen that the GVA from manufacturing has actually decreased by 6% over this time period, whilst the contribution from wholesale/retail, transport/storage and food activities has increased by 68%. The manufacturing sector GVA exceeded distribution until 2003 when this trend was reversed.

Table 6.9: Contribution to LLEP GVA of the Manufacturing and Wholesale/Retail, Transport/Storage and Food Sector

	GVA (£ millions)	
Year	Manufacturing	Wholsale/Retail, Transport/Storage and Food Activities
1997	£3,108	£2,253
1998	£3,079	£2,382
1999	£2,717	£2,400
2000	£2,978	£2,247
2001	£3,039	£2,381
2002	£2,706	£2,597
2003	£2,845	£2,879
2004	£2,883	£3,027
2005	£2,818	£3,103
2006	£2,703	£3,389
2007	£2,764	£3,622
2008	£3,015	£3,623
2009	£2,706	£3,600
2010	£2,844	£3,875
2011	£2,907	£3,794

Source: ONS – GVA by Industry Type at LEP Area Level, April 2014

7. THE POLICY CONTEXT

7.1 The main aim of this Section is to describe the current policy context with respect to the development of strategic logistics sites.

Section 7.1: National Policy

7.2 The previous Labour Government had developed a suite of policy documents relating to mode choice, sustainable logistics and industry best practice. The current administration, however, has scaled back significantly its policy involvement, and there are effectively only three policy documents directly relating to the logistics sector, namely;

- The draft National Policy Statement for National Networks;
- The National Planning Policy Framework (relevant sections); and
- The Logistics Growth Review.

7.3 The relevant sections of each document are reviewed below.

Draft National Policy Statement for National Networks

7.4 The National Policy Statement (NPS) for national networks was published in draft form by the DfT in December 2013. It sets out the Government's vision and policy for the future development of nationally significant infrastructure projects on the national road and railway networks. It provides guidance for promoters of nationally significant infrastructure projects, and the basis for the examination by the Examination Authority. The Secretary of State will use the NPS as the primary basis for making decisions on Development Consent Orders for nationally significant infrastructure projects. The NPS has been published in draft form, but will be designated following the period of statutory consultation

7.5 The Government's vision and strategic objective is to deliver national networks that meet the country's long-term needs; supporting a prosperous and competitive economy and improving overall quality of life, as part of a wider transport system. This means:

- Networks with the capacity and connectivity to support national and local economic activity and facilitate growth and create jobs;
- Networks which support and improve journey quality, reliability and safety;
- Networks which support the delivery of environmental goals and the move to a low carbon economy; and
- Networks which join up our communities and link effectively to each other.

7.6 Key sections of the draft NPS addresses the development of large scale strategic logistics facilities greater than 60ha which are connected to both the highway and road networks. Known as *Strategic Rail Freight Interchanges (SRFIs)*, they are classed as nationally significant infrastructure projects. Interim guidance with respect to SRFIs was previously published by the DfT in November 2011 (Strategic Rail Freight Interchange Policy Guidance). The policy set out in the NPS on SRFIs confirms the policy guidance from 2011, which will be cancelled once the final NPS has been designated.

7.7 Paragraphs 2.37 to 2.51 addresses the need for the development of SRFIs. Once designated, it will be the principal policy document concerning the development of SRFIs. Essentially, the document sets out the case for SRFIs, that there is a need for new SRFI capacity (particularly in the south east of England), how they should be developed and provides guidance with respect to their locations in relation to markets and transport networks.

7.8 The document describes a SRFI as a large multi-purpose freight interchange and distribution centre linked to both the rail and trunk road system. It has rail-connected warehousing and container handling facilities and may also include manufacturing or processing activities (Paragraph 2.38). The document notes that for many freight movements, rail is unable to offer a full end-to-end journey. SRFIs therefore enable goods to be transferred between modes, allowing rail to be used to best effect to undertake the long trunk-haul, with road haulage subsequently undertaking the final delivery.

7.9 It states that the aim of SRFIs is to optimise the use of rail in the freight journey by maximising rail trunk haul and minimising some elements of the secondary distribution leg by road through co-location of freight and distribution activities. They are therefore a key element in reducing the cost of moving freight by rail and are important in facilitating modal shift (Paragraph 2.40).

7.10 A number of 'drivers of need for SRFIs' are identified by the NPS.

1. Changing needs of the logistics sector. The document states that a network of SRFIs is a key element in aiding the transfer of freight from road to rail, supporting sustainable distribution, rail freight growth and meeting the changing needs of industry, especially from the ports and retail sectors. It notes that existing rail facilities offer no opportunity to expand, they lack modern warehousing facilities and they are not conveniently located for the modern logistics and supply chain industry.

2. Rail Freight Growth. The NPS states that the development of additional capacity at Felixstowe and London Gateway will lead to a significant increase in logistics operations. This will increase the need for SRFI development to reduce the dependence on road haulage to serve major markets. It notes that Network Rail, on behalf of a *Freight Market Study Working Group*, published a Freight Market Study in October 2013. This study contained

unconstrained rail freight forecasts to 2023 and 2033 (produced by MDS Transmodal to inform the Freight Market Study). These are reproduced in the table below.

	Billion tonne-km (compound annual growth from 2011)		
	2011*	2023	2033
TOTAL	**22.9**	**32.5 (2.9%)**	**43.7 (3%)**
Selected commodity groups			
Ports and Channel Tunnel intermodal	5.3	11.0 (6,4%)	16.1 (5.2%)
Domestic intermodal	1.1	7.1 (16.6%)	13.4 (11.9%)

Source: produced for Network Rail by MDS Transmodal

The NPS considers these forecasts robust and the Government has accepted them for planning purposes. While these forecasts, in themselves, do not provide sufficient granularity to allow site-specific need cases to be demonstrated, they confirm the need for an expanded network of large SRFIs across the regions to accommodate the long-term growth in rail freight. They also indicate that new rail freight interchanges, especially in areas poorly served by such facilities at present, are likely to attract substantial business, generally new to rail.

3. Environmental. The document notes that rail transport has a less negative impact on society than road transport and so has a crucial role to play in delivering reductions in pollution and congestion.

4. Jobs and Growth. The NPS states that SRFIs can provide considerable benefits for the local economy. This is because many of the on-site functions of major distribution operations are relatively labour-intensive and this can create many new job opportunities and contribute to the enhancement of people's skills and use of technology, with wider longer term benefits to the economy.

7.11 The NSP states that transfer of freight from road to rail has a part to play in reducing greenhouse gas emissions. To facilitate this modal transfer, the NPS concludes that a network of SRFIs is needed across the regions, to serve regional, sub-regional and cross-regional markets. In all cases it is essential that these have good connectivity both with the road and rail network, in particular the strategic rail freight network (see below) (Paragraph 2.49).

7.12 Overall, the NPS concludes that there is a compelling need for an expanded network of strategic rail freight interchanges. It is important that SRFIs are located near the business markets they will serve – major urban centres, or groups of centres – and are linked to key supply chain routes. Given the need for effective connections for both rail and road, the

number of locations suitable as SRFIs will be limited, which will restrict the scope for developers to identify viable alternative sites (Paragraph 2.51)

7.13 Paragraphs 4.78 to 4.85 addresses the form and function of SRFIs. It notes that SRFIs should include warehouses to which goods can be delivered from the railway network either directly or by another form of transport, and that a significant proportion of the warehousing on a proposed site is rail connected from the outset.

7.14 SRFIs will need to be appropriately located relative to the markets they will serve, which will largely focus on major urban centres, or groups of centres, and key supply chain routes. Because the vast majority of freight in the Great Britain is moved by road, proposed new rail freight interchanges should have good road access as this will allow rail to effectively compete with, and work alongside, road freight to achieve a modal shift to rail.

7.15 Adequate links to the rail and road networks are seen as essential. As a minimum a SRFI should ideally be located on a route with a loading gauge profile of W8 or more, or capable of enhancement to a suitable gauge. For road links, the Government's policy is set out in Circular 02/2013 (The strategic road network and the delivery of sustainable development).

7.16 As SRFIs tend to be large scale commercial operations, they will need to operate 24/7. By necessity they involve large structures, buildings and the operation of heavy machinery. Locationally, therefore, they often may not be considered suitable adjacent to residential areas or environmentally sensitive areas such as National Parks and AONBs, which may be sensitive to the impact of noise and movements. SFRIs can provide many benefits for the local economy. The existence of an available and economic local workforce will therefore important.

7.17 As a minimum, a SRFI should be capable of handling four trains per day and, where possible, be capable of increasing the number of trains handled. SRFIs should, where possible, have the capability to handle 775m trains with appropriately configured on-site infrastructure and layout. This should seek to minimise the need for on-site rail shunting and provide for a configuration which, ideally, will allow main line access for trains from either direction.

7.18 Paragraphs 2.1 to 2.24 of the draft NPS addresses the need for the *development of the national road network*. It notes that the roads are the most heavily used mode of transport in England and accounts for two-thirds of freight deliveries. It states that the strategic road network, while making up only 2% of roads in England, carries two-thirds of freight. The strategic road network provides critical links between cities, major ports and rail terminals. Two drivers of need for the development of the national road network are identified, namely:

- Economic growth and user satisfaction. Well connected road infrastructure is a vital component of economic growth; and

- Traffic Growth. Based on central estimates, the NPS states that road traffic on English roads is expected to grow by 42% between 2010 and 2040. On the strategic road network this growth is forecast to be 46% over the same time period. Its notes that while road traffic levels have declined by around 3.5% between 2007 and 2010, this was mainly the result of the economic downturn and rising oil prices.

7.19 Consequently, it concludes that increased traffic without sufficient capacity will result in more congestion, greater delays and more unpredictable journeys. Without action, it is forecast that the proportion of time spent in delayed traffic will increase from 16% to 24% by 2040. Congestion on the national road network is forecast to increase by 62% from 2010 to 2040 based on the central forecasts (Table 2.1 from the NPS).

7.20 The Government has ruled out a number of alternatives to the development of the national road network as neither desirable or viable, namely:

- Better maintenance and asset management;
- Demand management – it has rules out a national road pricing to manage demand; and
- Modal shift.

7.21 The Government's policy is therefore to reduce congestion and unreliability by focusing on improving and enhancing the existing national road network, and will include:

- Enhancements such as junction improvements, new slip roads and upgraded technology;
- Implementing 'smart motorways'; and
- Improvements to trunk roads, in particular dualling single carriageway trunk roads.

7.22 It notes, however, that in some cases it will not be sufficient to expand existing capacity and that new road alignments and corresponding links may be needed to support increased capacity to meet the needs created by economic growth.

The National Planning Policy Framework

7.23 National planning policy for England is set out in the National Planning Policy Framework (NPPF), which was published by the Department for Communities and Local Government (DCLG) in March 2012. Replacing previous guidance, it sets out the Government's planning policies for England and how these are expected to be applied in local plans and planning decisions. A number of key sections of the NPPF are therefore relevant to this study.

7.24 Sustainable transport is addressed in Section 4 of the NPPF and overall it provides for transport policies that facilitate sustainable development but also contribute towards wider sustainability and health objectives (Para 29). In summary the NPPF:

- Expects that developments which generate large volumes of freight (i.e. including strategic logistics facilities) to be located on sites where the use of sustainable transport modes can be maximised (Paragraph 34). In this case, it essentially expects large scale distribution to be located within SRFIs (see above), alongside inland waterways or within a port;
- Encourages solutions which support reductions in greenhouse gas emissions and reduce congestion (Paragraph 30);
- Supports development which, where reasonable to do so, facilitates the use of sustainable modes of transport (Para 30)
- Promotes (and protects) opportunities for the use of sustainable transport modes for the movement of goods (Paragraph 35); and
- Encourages developments that are located at sites which accommodate the efficient delivery of goods and supplies (Paragraph 35).

7.25 The NPPF states that Local Authorities should work with neighbouring authorities and transport providers to develop strategies for the provision of viable infrastructure necessary to support sustainable development, including large scale facilities such as SRFIs (Paragraph 31).

7.26 The NPPF does not seek to 'force' the use of non-road modes or specify particular levels of freight that have to be lifted by non-road modes at rail-served sites. Instead, decisions made by planning authorities should ensure that opportunities to use non-road modes are protected and promoted, and that developments are located 'where the use of sustainable transport modes can be maximised' (paragraph 34).

7.27 With respect to the imposition of planning conditions, the NPPF clearly states that they 'should only be imposed where they are necessary, relevant to planning and to the development to be permitted, enforceable, precise and that they are reasonable in all other respects' (paragraph 206).

7.28 The NPPF also states that local planning authorities should have a clear understanding of business needs within the economic markets operating in and across their area. This will involve working with neighbouring authorities, Local Enterprise Partnerships and the business community to understand their changing needs and identify barriers to investment, including a lack of infrastructure (Para 160). Local planning authorities should also work with other authorities and providers to assess the quality and capacity of infrastructure for transport (Para 162).

The Logistics Growth Review (DfT, 2011)

7.29 This document was published by the DfT in November 2011 as part of the Government's wider Growth Review strategy. Its main aim was to identify the barriers to economic growth within the logistics industry, and present a series of measures to address these identified barriers. It was published alongside the SRFI Policy Guidance document (which will be replaced by the NPS Statement for National Networks – see above) and the National Infrastructure Plan. The document effectively forms the Government's current policy towards the logistics sector.

7.30 The document notes that the logistics sector accounts for around 9% of UK Gross Value Added (GVA) and 7% of total employment, and that the sector is already extremely competitive. It states that facilitating economic growth in the sector is critical to the Government's overall growth strategy (Paras 1-3).

7.31 The document states five core areas in which the Government can play a significant part in increasing the productivity of the logistics sector. One area directly relevant to this study is as follows:

1. Giving industry greater confidence to invest. In particular, by removing planning barriers to sustainable logistics development, with a focus on SRFIs, and by promoting use of private capital and facilitating access to capital for commercial investment. The document notes that road and rail transport infrastructure plays a vital role, and that according to the rail freight industry's own forecasts (see NPS review above) growth can be expected in rail freight activity. It notes that this expansion will be difficult to deliver unless industry is able to deliver modern SRFIs, providing effective integration between road and rail networks (Paras 5 and 6).

7.32 The document lists a number of actions the Government is taking to address the barriers to growth identified. These included:

- A joint Ministerial Statement (by the Secretary of State for Transport and Secretary of State for Communities and Local Government) supporting the development of SRFIs and investment in rail freight terminals. This was presented to Parliament on the 29th November 2011;
- The Government has asked Network Rail to support the development of a network of SRFIs, working collaboratively with the wider logistics industry to speed up delivery of SRFIs and establish appropriate funding rail infrastructure elements of such proposals;
- Further investment in the Strategic Rail Freight Network (SFN – see below) in the current Control Period to 2014, to enhance the capacity and capability of the rail network serving the major deep-sea ports; and

- Further support for the rail freight industry in the Command Paper (Reforming our Railways, summarised below).

Section 7.2: Other Relevant National Document

7.33 Three further national policy and strategy documents are also relevant in this context, namely:

- Command Paper: Reforming our Railways;
- The Strategic Freight Network: The Long Term Vision; and
- The High Level Output Statement.

7.34 The relevant sections are reviewed below.

Command Paper: Reforming Our Railways (Department for Transport, 2012)

7.35 This document was published by the Department for Transport (DfT) in March 2012 and sets out the Government's vision for the railway industry and the policies that are required to realise that vision (Para 1.1). Furthermore, the document provides the policy framework for the High Level Output Specification (HLOS – which is summarised below) (Para 1.4).

7.36 Much of the Command Paper was concerned with reforms to passenger rail franchising (which have since been revised following the failure of the Virgin Trains/WCML franchise competition), fares and ticketing, the role of the regulator and the relationships between passenger operators and Network Rail in order to achieve savings to the industry cost base (and tax payer). However, part of Section 4 of the paper deals with the 'Expanding Freight Sector', which clearly states that Government policy is to promote further modal shift by, among other policies, promoting the development of Strategic Rail Freight Interchanges (Paras 4.43 to 4.47). It effectively re-confirms the contents of the SRFI Policy Guidance document (since replaced by the NPS).

7.37 The document states that the Government recognises the valuable wider benefits that rail freight delivers, and the need to give it certainty over its future. In particular it states that (Para 4.46):

- The Government will consider further investment in the Strategic Freight Network (SFN – see below), both to help make best use of the existing network and, by increasing its freight capability, to leverage continued private sector investment in rail freight growth;

- The Government will continue to provide support through the mode shift revenue support scheme to shift freight from road to rail where there are overall environmental and social benefits from doing so;
- The Government will provide a clear planning policy framework to support further private sector investment in rail freight terminals and rail-connected distribution parks, including Strategic Rail Freight Interchanges (SRFIs), to support growth (see summary of National Planning Policy Framework below); and
- Network Rail will work with the industry to safeguard strategic freight capacity and to facilitate strategic investment in SRFIs.

Strategic Freight Network: The Longer Term Vision (DfT, 2009)

7.38 The 2007 Railways White Paper announced the Government's intention of working with Network Rail to develop a Strategic Rail Freight Network (SFN) to facilitate the continued growth of rail freight services. The SFN is a core network of trunk freight routes, capable of accommodating more and longer freight trains, with a selective ability to handle wagons with a greater loading gauge, integrated with and complementing the existing mixed traffic network (Para 13). Despite being published under the previous Government in 2009, subsequent policy documents (including the HLOS – see below) have confirmed the current Government's commitment to further investment in the SFN to facilitate sustainable rail freight growth. It can therefore be considered 'active' and relevant.

7.39 To deliver a SFN, the 2007 White Paper recognised that interventions and investment will be required to:

- Optimise freight trunk routeings to minimise passenger/freight conflicts;
- Make the network available 24-hours a day, all year round;
- Eliminate pinch points; and
- Upgrade network capability.

7.40 SFN investment in the current Control Period (CP4, 2009 to 2014) has been focused on loading gauge enhancement to W10/12 and train lengthening on key routes from the major deep-sea ports. This document described ways in which the SFN will be further developed and enhanced beyond 2014 (i.e. after the current funding period) together with other initiatives which will accommodate the forecast freight growth to 2030 (Para 9).

7.41 Specific SFN schemes 2014 to 2019 and beyond will be developed as an integral part of the network planning process which will underpin the next HLOS (see below) and the emerging strategies for dealing with future passenger demand on the main line routes (Para 19).

However, the documents set out nine principals principles which will define the key requirements for the longer-term development of the SFN (Para 20). These are:

- Longer and heavier trains – 775m length trains on the SFN and new terminals (including SRFIs) being designed to accommodate train is this length;
- Freight and network-efficient operating characteristics – through running of freight trains where feasible;
- 24/7 capability – the 'seven day railway';
- W12 loading gauge – implemented as the standard loading gauge for all SFN routes;
- A mainland European loading gauge freight link – UIC B+ gauge, potentially on the Midland Main Line;
- New freight capacity particularly on key intermodal routes to meet forecast growth;
- Electrification of key routes;
- Freight paths – the strategic freight path scheme; and
- The development of new SRFIs.

7.42 The Midland Main Line is indicated in the Maps in Appendix A of the document as being part of the core SFN.

High Level Output Specification (DfT, July 2012)

7.43 The Railways Act 2005 requires that the Secretary of State for Transport set out for the Office of Rail Regulation the following information:

- What the Secretary of State wants the railway to achieve and deliver during the following Control Period (in this case 2014 to 2019) – the High Level Output Specification or HLOS; and
- The amount of public money available to secure delivery – the Statement of Funds Available or SoFA.

7.44 Both the HLOS and SoFA were published by the DfT in July 2012. The HLOS sets out, at a strategic level, the capacity and capability enhancements (outputs) for the national railway network the Government wants to be delivered over the following 5-year Control Period (to 2019). Network Rail and train operators are responsible for the detailed design and implementation of the outputs specified. The HLOS states the Government's vision for dynamic, sustainable transport that drives economic growth and competitiveness, putting the customer and business at the heart of transport (para 1). It notes that freight traffic conveyed by the railways is forecast to grow by 23% over the Control Period in question (2014 to 2019) (para 4).

7.45 The strategy outlined in the HLOS is built around four priorities. Two of these are directly relevant to the freight sector and the East Midlands, namely:

- The creation of an 'electric spine', an electrified and loading gauge enhanced freight corridor running from the south coast (Southampton) through Oxford and Bedford to the Midlands and Yorkshire (para 6); and
- Improving railway links to the major ports (para 10).

7.46 The electric spine sits alongside other previously announced electrification schemes, (which includes the Midland Main Line and Great Western Main Line). Once completed, this will create a network of electrified freight routes linking the main deep-sea container ports and the Channel Tunnel with major centres of population and economic activity (para 7). Given this position, SRFIs (or sites capable of accommodating SRFIs) which are located alongside this electrified network or a short distance from the network but capable of being electrified at relatively little cost can be expected to become more commercially attractive to the logistics sector (capable of receiving longer trains at lower operating costs when compared with diesel traction).

7.47 The HLOS and SoFA further confirm that the Government will continue to fund the development of the SFN, and has made available a 'ring fenced allocation' of £200 million over the 2014-2019 Control Period 'to fund investments identified by the industry' (para 51).

7.3 Local Plans

7.48 Local Plans (Core Strategies) currently adopted by the Leicestershire planning authorities also address the need for employment land (for strategic logistics activity) and sustainable transport. The relevant sections from each Core Strategy were previously identified within Section 2.3 above alongside the overview of the existing pattern of logistics/warehousing developments in each planning authority area.

8. AIRFREIGHT

8.1 While airfreight is an important part of the logistics sector, there are a number of distinct differences between it and the conventional 'overland' distribution market which means that it should be considered separately. Firstly, volumes handled are much smaller; only 2.3 million tonnes of airfreight was lifted in Great Britain during 2013 (and much of that through one airport – see below) compared with around 2,000 million tonnes by other modes. Secondly, cargoes are generally high value and time sensitive commodities moving predominantly on long distance international flows.

8.2 Thirdly, while the airfreight operators base their landside activities at warehouses ('transit sheds') which from the outside may look similar to the large scale buildings described earlier, they are not considered as conventional warehouses. They contain sophisticated (automated) handling and sorting systems. They are generally considerably smaller than those operated on behalf of the main retailers and distributors, with throughput/dwell times also being much quicker than at a standard RDC/NDC; cargo passing through in a matter of hours rather than days/weeks. As a result, transit sheds are not as 'land hungry' when compared with the facilities described in the previous Sections 2 and 4. Transit sheds also need to be located on or close to airport estates. The land-use implications therefore need to be addressed separately.

Section 8.1: Background

8.3 The airfreight market is essentially divided into three segments, namely:

- Airfreight carried in the bellyholds of passenger flights (both scheduled and charter);
- Airfreight carried in dedicated cargo aircraft (scheduled and charter); and
- Express service providers.

8.4 Freight carried in the bellyholds of passenger flights is the dominant market segment to/from Great Britain. In 2013, 1.6 million tonnes (70%) of airfreight was carried in this manner, compared with 0.7 million tonnes on dedicated freight aircraft or by the express service providers. Within this segment, the long haul (inter-continental) scheduled airlines are the dominant carriers of freight. This is for four main reasons, namely:

- Intra-European flights generally use smaller narrow bodied aircraft with limited payload capacity (e.g. Airbus A320) compared with the larger wide-bodied aircraft used on inter-continental flights e.g. Airbus A340 or A380;
- Surface modes, particularly the accompanied road freight industry, can normally match door-to-door transit times within the European market but for considerably cheaper rates;

- The intra-European passenger market is now dominated by the low cost/no-frills airlines. Their business model is based around short turnaround times at airports to maximise aircraft utilisation and the time taken to load cargo would not allow such operating practices; and
- Inter-continental charter flights do not offer the frequency required by the freight market e.g. normally weekly or twice weekly, and are often seasonal.

8.5 The long haul scheduled airlines principal operating strategy is to sell bellyhold capacity on flights to agents, known as airfreight forwarders. These in turn subsequently fill that capacity with orders placed with them by shippers (exporters). Specialist logistics operators are then contracted by the forwarders to collect cargo from shippers (by road goods vehicles) and deliver it to the passenger aircraft at departure airports. Cargo will pass via transit sheds close to airports, where it is sorted and packaged, before being loaded onto flights. Similarly at the receiving end, logistics operators are contracted to collect cargo from flights and deliver it to the customer (again via a transit shed). Most airlines therefore earn additional revenue by filling what would otherwise be empty bellyhold space, but do not become directly involved in the selling of capacity to shippers or managing the end-to-end supply chain.

8.6 Dedicated scheduled freight services, operated either by the freight division of a passenger carrier or a specialist airfreight airline, are utilised on routes which attract large enough volumes to justify a whole aircraft. However, as airfreight forms a very small proportion of total imports and exports, there are few trade-routes where frequent scheduled freight services are justified (hence the use of bellyholds on passenger flights, where there is demand for frequent flights). Also dedicated freighter aircraft can be chartered for one-off large individual consignments.

8.7 The *express service providers* (e.g. TNT, DHL, UPS) are essentially international parcel couriers who specialise in moving individual shipper consignments at less than container load quantities in short periods of time. Services will generally range from overnight to 3-5 day lead times (short lead times being more expensive). The express providers specialise in operating their own dedicated freight aircraft between hub and spoke airports, where consignments can be 'cross docked' onto connecting flights in short periods of time. Flights generally operate each night, meaning access to airports with minimal night-time flying restrictions is important. Access to transit shed capacity close to airports, in order to handle/sort cargo before, after and between connecting flights, is also a vital requirement. Initial collection from shippers and final delivery to receivers will be undertaken by road transport (often under the providers own livery/branding).

Section 8.2: Airfreight Statistics

8.8 The tables below shows airfreight volumes for 2013 for the five main airfreight airports in Great Britain. For the reasons noted above, the long haul (inter-continental) scheduled airlines are the dominant carriers in the bellyhold segment, and these predominantly use Heathrow as their only British 'hub' airport. Consequently, London Heathrow dominates the movement of airfreight in the bellyholds of passenger flights (1.4 million tonnes in 2013 or around 90% of bellyhold air freight).

8.9 The tables also show that Stansted and *East Midlands* airports dominate the *express service* sector (accounting for 70% of freight conveyed on dedicated freight aircraft). In addition to their excellent locations relative to key origins and destinations of cargo and connections to the strategic highway network, both airports offer minimal night-time flying restrictions along with historic availability of land close-by on which transit shed capacity could be developed.

Table 8.1: Airfreight Handled at Major Airports 2013

	Tonnes lifted												
	EU				Other International				Domestic				TOTAL
	Scheduled		Charter		Scheduled		Charter		Scheduled		Charter		
Airport	Passenger	Cargo	Passenger	Cargo	Passenger	Cargo	Passenger	Cargo	Passenger	Cargo	Passenger	Cargo	
Gatwick	1,706		906	8	87,914		5,770	4	416				96,724
Heathrow	49,287	2,592	1	36,135	1,302,615	30,665	80	106	1,459				1,422,940
Stansted	3,403	1,717	52	60,483	1,119	65,079	2	78,615	3			1,480	211,953
Manchester	2,204		390	6,076	75,687	4,429	3,529	3,191	122		4	749	96,381
East Midlands				166,044			1	58,242	14			42,666	266,967

	Tonnes lifted		
Airport	Passenger	Cargo	TOTAL
Gatwick	96,712	12	96,724
Heathrow	1,353,442	69,498	1,422,940
Stansted	4,579	207,374	211,953
Manchester	81,936	14,445	96,381
East Midlands	15	266,952	266,967

Source: CAA

Section 8.3: Airfreight at East Midlands Airport

8.10 East Midlands Airport (now part of the Manchester Airports Group) is located at Castle Donington, Leicestershire (North West Leicestershire). It has a single runway 2,893m in length which also permits night-time flying. Airfreight within the East Midlands Airport boundary (i.e. providing direct 'air-side' access to the aircraft parking apron) is handled in two dedicated zones, namely.

- *Cargo West*: This includes the main DHL transit shed and its associated aircraft parking apron. The DHL transit shed has a floor space of around 33,000 square metres; and
- *Cargo East*: UPS, TNT and Royal Mail have their operations at Cargo East, occupying transit sheds ranging in size from 4,000 square metres to 7,000 square metre. All operators share the existing aircraft parking apron.

8.11 In addition, a number of logisitcs operators are located in Pegasus Business Park. This is located in the south-east of the wider airport estate, albeit that it does not have direct access to the aircraft parking aprons.

8.12 The table below shows the airfreight volumes handled at East Midlands Airport since 2003. Annual growth rates on a compound annual basis are just under 1.5% per annum.

Table 6.2: Airfreight Volumes at East Midlands Airport 2003-2013

Year	Tonnes lifted
2003	227,060
2004	253,053
2005	266,569
2006	272,303
2007	274,753
2008	261,507
2009	255,121
2010	273,669
2011	264,595
2012	264,292
2013	266,967
CAGR	1.48%

9. SUMMARY AND CONCLUSIONS

9.1 *Logistics* and *distribution* are often used interchangeably to refer to the movement and management of the flows of goods and information. This can be contained strategically within an organisation or be part of a complex supply chain. The growth in the service industries alongside the eastward shift in manufacturing has fuelled Great Britain's logistics industry and the creation of a distinct logistics sector; with an increase in distribution requirements and changing distribution patterns. As a consequence, industrial property demand has shifted from factories (B2 and B1c use) towards distribution warehouses (B8 use).

9.2 Section 2 described how the distributors general cargo and retail/consumer type goods generally organise their supply chain strategies around large scale *warehouses* or *distribution centres*. Given their fixed nature and the large capital required to develop them, they can be considered as key geographically specific investments at the 'shipper' level. It is therefore important that sites selected for large scale distribution centres are competitive and attractive to the logistics market. Section 2 also described that there are basically two types of distribution centre when defined by their functions and hinterland; *National Distribution Centres (*NDCs) and *Regional Distribution Centres (RDCs).*

9.3 The '*supply chain*' can therefore be defined as the flow of goods from manufacturer to the general public via suppliers, retailers and their distribution centres. The important commercial players are the manufacturers/producers (particularly those based overseas) and the major retailers, together with their 3PLs who physically transport and handle the cargo on their behalf. It is these organisations who will dictate future logistics strategy, particularly with respect to the location of distribution centres and inland transport mode. Cost effective logistics strategies are an important factor contributing to the process of maintaining and enhancing competitive positions. The provision of strategic distribution sites which are competitive and attractive to the logistics market will play a crucial role in this overall process.

9.4 The key conclusion to be drawn from the combined analysis presented in this interim report is the importance of the logistics/distribution sector to the sub-regional economy. The southern part of the East Midlands region, of which Leicestershire is part, has become the competitive 'location of choice' in both supply chain cost and performance terms when sourcing and distributing on a national basis. This was for three main reasons, namely:

- It was broadly central to the major domestic production sites, the deep-sea and Channel ports (for imported cargo) and RDCs in other regions (the next stage in the supply chain).
- The release of large competitive sites by local authorities for B8 use during the 1980s which were close to junctions on the M1/M6. This, combined with the above reason, meant that

most inbound or outbound cargo movements could be undertaken within 4.5 hours drive time, this being half a HGV driver's daily driving limit. Consequently, a HGV could round-trip within a driver's shift (enabling a HGV to undertake at least two round-trips over a 24 hour period); and

- Historically, relatively low road haulage costs (in turn driven by low fuel costs) and competitive labour rates.

9.5 This position was evidenced by the analysis undertaken in Section 4 (warehouse floor space) and Section 6 (Employment). Section 4 showed that a significant quantum of large scale warehouse floor space has been developed in the golden triangle (of which Leicestershire is part), with a significant proportion of this floor space serving the national market rather than a regional hinterland. The East Midlands region hosts just over *8 million square metres* of floor space across 334 large scale warehouse units. The average size of a warehouse unit is around 24,000 square metres. Around 72% of the East Midlands floor space capacity is located in Northamptonshire or Leicestershire, and in Leicestershire itself around 2.25 million square metres of floor space across 89 warehouse units was identified.

9.6 The East Midlands region records around 8% of the population of England and Wales, however it accommodates 20% of total English and Welsh warehouse capacity. Demand for warehouse floor space is directly related to cargo throughput, which in turn is related to the demand for goods within the wider economy. This data shows, therefore, that the East Midlands region has a distinct competitive advantage in this sector, in that it has attracted a quantum of warehouse floor space significantly above that which its population and wider economy would suggest.

9.7 This position is further evidenced by the economic and employment analysis undertaken in Section 6. Nationally, direct employment in the logistics/distribution sector accounts for nearly 9% of the workforce. However, the LLEP Economic Growth Plan 2012-2020 gives a figure of 51,300 jobs in the LLEP area in distribution and logistics, accounting for 12% of local employment. It also identifies the high levels of employment in North West Leicestershire and the Harborough District at Magna Park. In addition the LLEP cites the ONS annual business inquiry employee analysis which shows that 7.7% of jobs are in transport and communication within Leicestershire compared to 5.5% in the East Midlands and 5.8% in Great Britain.

9.8 In terms of the strategic distribution sector's contribution to the sub-regional economy, the total Gross Value Added (GVA) of the LLEP area in 2012 was £17,949 million, which comprises approximately 1.4 % of total GVA across all the Local Enterprise Partnership (LEP) areas in England (£1,261,571 million)[11]. The same dataset also shows that GVA attributable to

[11] Source: ONS - GVA by Industry Type at LEP Area Level, April 2014

wholesale/retail, transport/storage and food activities was £3,794 million or around 21% of the LLEP area total.

9.9 Section 5 described how new commercially attractive strategic logistics sites are considered to be ones which meet the following criteria:

- Good connections with the strategic highway network;
- Appropriately located relative to the markets to be served;
- Offers modal choice; is served by a railway line offering a generous loading gauge (minimum W9), available freight capacity and connects to key origins/destinations directly without the requirement to use long circuitous routes;
- Is sufficiently large and flexible in its configuration so that it can accommodate an intermodal terminal and internal reception sidings;
- Is sufficiently large and flexible in its configuration so that it can accommodate the size of distribution centre warehouse units now required by the market;
- Is accessible to labour, including the ability to be served by sustainable transport, and located close to areas of employment need; and
- Is located away from incompatible land-uses.

9.10 Section 7 described how national planning policy (Draft National Planning Statement for National Networks) is promoting the development of large scale strategic logistics facilities greater than 60ha which are connected to both the highway and road networks. Known as *Strategic Rail Freight Interchanges (SRFIs)*, they are classed as nationally significant infrastructure projects. Further, the National Planning Policy Framework Expects that developments which generate large volumes of freight (i.e. including strategic logistics facilities) to be located on sites where the use of sustainable transport modes can be maximised. In this case, it essentially expects large scale distribution to be located within SRFIs (see above). It also encourages solutions which support reductions in greenhouse gas emissions and reduce congestion.

APPENDIX 1: GLOSSARY

Leicestershire – a County in the East Midlands which in local Government terms comprises the City of Leicester unitary authority along with those parts of the county administered by Leicestershire County Council and the seven district councils.

RoRo – roll-on roll-off. The method of shipping whereby unit loads are 'rolled' onto and off shipping vessels. Generally includes driver accompanied or unaccompanied HGVs along with container units in trailers. The main method of importing finished/consumer cargo from mainland Europe or Ireland.

LoLo – lift-on lift-off. The method of shipping whereby unit loads are lifted onto or off shipping vessels. Generally covers standard dimension maritime containers lifted to/from vessels using quayside gantry cranes. The main method of importing finished/consumer cargo from non-European origins (so called 'deep-sea' origins), particularly the Far East.

The golden triangle – the southern part of the East Midlands region that historically became the competitive 'location of choice' in both supply chain cost and performance terms when sourcing and distributing on a national basis. In terms of boundaries, there is no one standard definition of the 'golden triangle'. It may be referred to as the area bounded by the M1, M6 and M69 (narrow definition), albeit that others consider it to be a larger area broadly enclosed by Milton Keynes, Birmingham and Nottingham (along the M1 and M6 corridors).

GB Freight Model – A freight transport model developed by MDS Transmodal, and used for analysing current and forecasting future freight flows to, from and within Great Britain by mode, origin/destination, routing and commodity. It has been audited by the DfT and used to inform a number of their studies, and it was also employed on the East Midlands Strategic Distribution Study (for the former EMDA) to forecast land use requirements going forward. It has recently been used to produce updated rail freight forecasts for Network Rail.

Intermodal – Generally refers to the transport of cargo by more than one mode between origin and destination. It usually involves goods loaded into some form of container unit (e.g. deep-sea maritime container) which can be conveyed by trains, shipping vessels and heavy goods vehicles (HGVs). Transfer between modes is undertaken at a depot/terminal using either gantry cranes or mobile lifting equipment.

Yield – The annual percentage return which is considered to be appropriate for a specific valuation or an investment, being expressed as the relationship between the annual net income (actual or estimated) and the capital value. It is a measure of an investor's opinion about the prospects and risks attached to that investment. The better the prospects and the lower the risks, the lower the expected yield and thus the greater the capital value.

Grade A – A new building which will be finished to a good specification in order to meet the demands of premier occupiers. It will be likely to command higher rents than the sector average for the area.

CAGR (Compound Annual Growth Rate) – The year-over-year growth rate over a specified period of time. It is an imaginary number that describes the growth rate if it grew at a steady rate. You can think of CAGR as a way to smooth growth rates. The compound annual growth rate is calculated by taking the n^{th} root of the total percentage growth rate, where n is the number of years in the period being considered.

3PL – Third party logistics operator. An organisation that provides logistics services to shippers on a contract basis.

APPENDIX 2: STUDY TERMS OF REFERENCE; PART A

Review and Research

Engage with the strategic distribution industry and review existing research (see Appendix 1) and policy from appropriate national, regional and local contexts to provide a narrative and evidence based commentary on the sector to include:

Performance & Function

a. A definition & description of the strategic distribution sector.

b. An analysis of the performance & function of the strategic distribution sector, its critical importance to UK Plc and its contribution to GVA and jobs – nationally, regionally and locally.

c. The identification of supply chains and an assessment of the relative importance & impact of strategic distribution to other sectors (particularly LLEP priority sectors) in Leicester & Leicestershire.

Location & Property

d. Location characteristics & requirements of the sector– optimal location between suppliers and markets, modal flexibility, labour supply, infrastructure access (road / rail / air freight / port).

e. A profile and explanation of the 'Golden Triangle' – its advantages / disadvantages and future influence on growth & spatial choices for the sector.

f. The operating needs of the sector to 2031 (and indicatively to 2036); focusing on strategic highway and rail access, environmental and planning constraints, development site requirements, operating requirements.

g. The variety of property needs for the sector because of the different types of operator and operations e.g. unit size, plot ratio / configuration, property lifespan, ancillary & complementary land uses, "churn", relocation / in-situ renewal trends.

h. Role and influence of rail & Strategic Rail Freight Interchanges for parts of the sector (and why not for other parts) – progress on achieving modal shift in the sector / region.

i. The operating synergies between rail-served and non-rail-served strategic distribution sites.

Employment & Labour

j. An analysis of the strategic distribution sector as an employer - job No's / density, occupational type/s, skill / qualification levels, training, pay, contractual arrangements and any specific local traits.

k. An assessment of the labour catchment / TTWA for the sector and any specific local labour supply / demand issues.

l. An understanding of the training requirements and provisions of the sector including the delivery of apprenticeships.

Policy Context

m. An assessment of the strategic policy context (spatial planning, economic) affecting the sector – national, regional (East / West Midlands), Golden Triangle / adjacent LEP & LPA areas.

n. Future challenges facing the sector e.g. climate change, congestion, modal shift, retail trends and consequent spatial planning implications.

o. An understanding of the wider transport and freight policy context (incl. rail, sea port, road) for the sector and its influence over the development of the sector in Leicester & Leicestershire.

APPENDIX 3: E-TAILING REPORT (SAVILLS)

E-tailing & the impact on distribution warehouses

April 2013

SUMMARY

■ E-tailing continues to grow at pace within the UK, with record percentages of total retail sales now coming from online. To combat this change, the traditional 'high street' retailers are being forced to reconfigure their supply chains to cater for this new era of multi-channel retailing.

■ This report identifies the current and future trends in e-tailing and how the inevitable changes will impact upon the distribution warehouse sector and its future growth.

■ Savills commissioned Transport Intelligence to undertake an in-depth analysis of the online retail sector, including face-to-face interviews with retailers to understand issues including the points at which retailers are 'triggered' into expanding their warehouse facilities, as well as, their preferences both in terms of location and configuration of the space.

■ From the research and analysis, Savills believe that warehouse take-up, by retailers only, will total 50 million sq ft over the next five years and that is 21% up on take up in the last five years. 13 million sq ft of this future take-up will be within e-tailing specific property, driven by online sales.

■ With specific needs from retailers and a shortage of stock, there will be a bias towards more pre-letting in the UK and an increased reliance on development sites.

■ This paper summarises a larger and more comprehensive report from the interviews and the survey. Hence the bullet point style of this overview. To obtain a copy of the full report, please contact Richard Sullivan or Steven Lang.

"E-tailing will help drive a new era of demand for warehouse space... although one size will not fit all" Richard Sullivan, National Head of Industrial & Logistics

The market today

■ On-line retail sales are roughly 10% of total retail sales today and are expected to double over the next decade. The knock on effect for the logistics market will be significant and demand for distribution warehouses will be driven increasingly by the needs of the e-tailing market.

■ The Transport Intelligence/Savills research targeted the key players in the e-tailing market and was purposely aimed at the occupiers of distribution warehouses. A detailed interview process and a wider survey were completed.

■ Transport Intelligence's expertise lies within the logistics process and has enabled Savills to have a clearer understanding of the key factors affecting property within the e-tailing sector.

■ The businesses interviewed included the 'traditional' retailers such as supermarkets and department stores as well as retailers that rely much more heavily on the online consumer market.

■ The other main group of respondents was 'logistics providers', including express parcel companies and 'e-fulfilment' players that include Amazon, Norbert Dentressangle and iForce.

■ Graph 1 illustrates the increasing sales growth expected for the next 12 months from the survey/interviews.

■ A quarter of retailers expect e-tailing growth to increase by a further 25% during the next 12 months, compared to 20% of logistic providers.

■ As shown in Graph 2, there are varying levels of e-tailing related sales. Although interestingly, nearly 40% of retailers have less than 5% classified as e-tailing and this demonstrates there is room for significant growth within their e-tailing businesses.

■ The majority of respondents operate one warehouse (Graph 3). At the other end of the scale, 9% operate between 11 and 100 warehouses at present.

The players

■ The analysis has been split between the retailers and the logistic providers.

■ 20% of the retailers operate from a dedicated e-fulfilment centre at present, compared to 36% of logistic providers. It is unsurprising that more retailers operate a multi-channel facility, but investment in dedicated e-fulfilment will increase in the future.

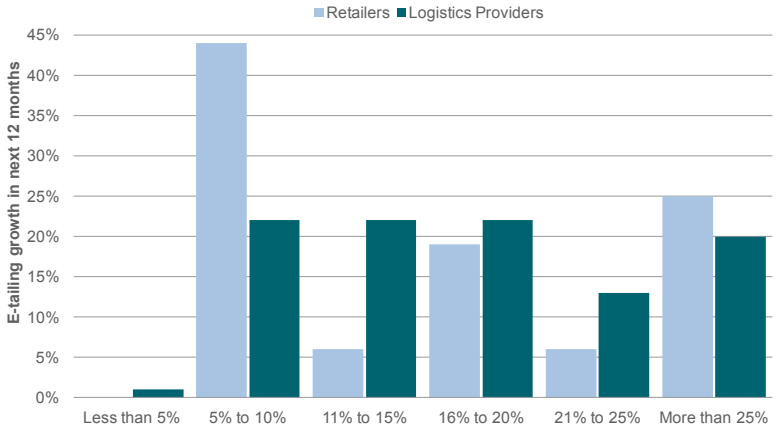
■ The 'trigger' point for a dedicated e-fulfilment centre is the key statistic. For the retailers, when the space required is between 10-25,000 sq ft, then a dedicated centre is adopted, on average.

■ A discussion with one major e-fulfiller for small/medium retailers said that warehouses range between 20,000-60,000 sq ft. They also said that the 'tipping point' for a new dedicated e-fulfilment centre, assuming a standard parcel size, is 200,000 on-line orders.

■ The 20-60,000 sq ft range mentioned above does not sound a significant amount of space, but should be put into the context of the fact that three-quarters of retailers currently operate from 10,000 sq ft or less. It is not all about the big retailers in this growth market.

GRAPH 1

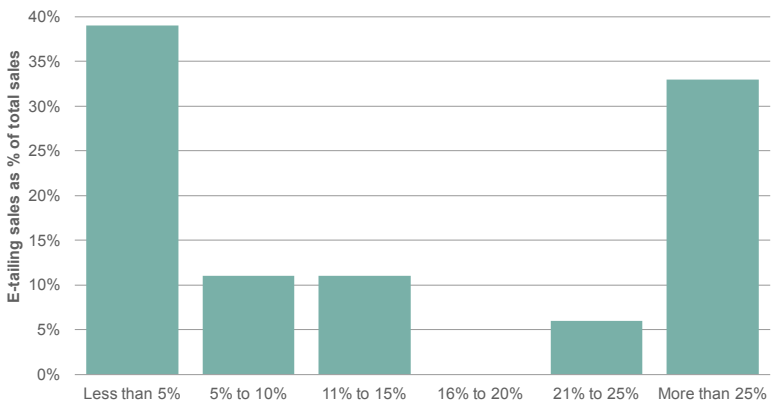
E-tailing sales growth predictions for next 12 months



Graph source: Transport Intelligence / Savills

GRAPH 2

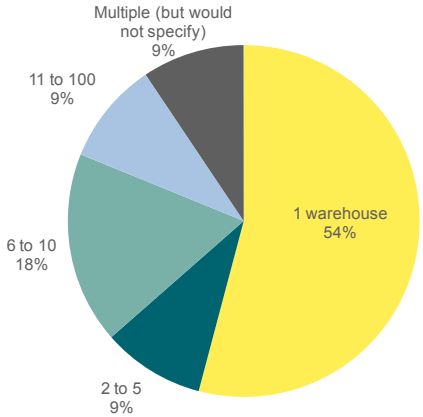
Retailers' e-tailing sales proportions



Graph source: Transport Intelligence / Savills

GRAPH 3

Respondents' current warehouse portfolio



Graph source: Transport Intelligence / Savills

■ The question for the property market is how can this type of space be catered for? Savills view is that there will be an increase demand on more 'traditional' industrial estates close to, or within, urban centres. These offer good security and can be more cost effective for smaller companies.

■ Within older industrial estates, there is a potential to 'breathe new life' into warehouses that could be viewed as redundant, particularly in close proximity to towns and cities. Indeed, this view is supported by the speculation of Amazon establishing a 'satellite' depot of 75,000 sq ft in Croydon. This will support their large warehouse network around the country with further requirements out amounting to 3 million sq ft.

■ The interesting strategies that have emerged are related to the final delivery to the customer ('last mile'). 'Dark stores' have generally dominated the headlines, where the warehouse function replicates a supermarket store, without the frills or customers. 'Pick and pack' functions are very efficient from this type of operation. Tesco have six 'dark stores', including one in the pipeline. As well as being in Park Royal, Waitrose e-tailing warehouse is planned in Croydon of approximately 80,000 sq ft.

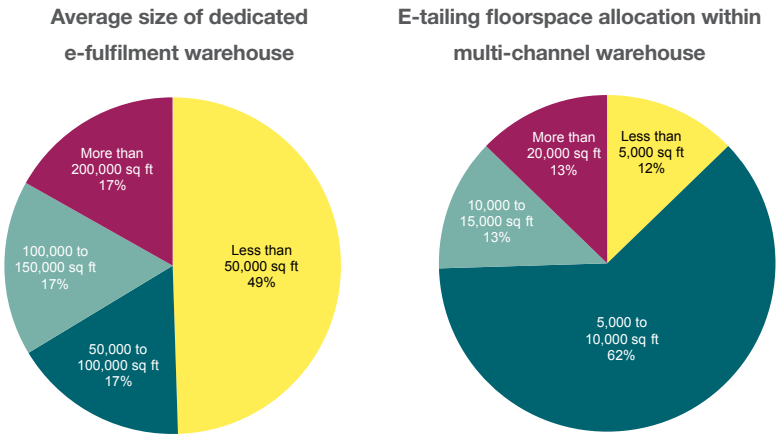
■ One of the pioneers of the fulfilment sector in the UK, Ocado, have announced the imminent opening of a £210 million centre near Tamworth, West Midlands. Stock has been received and live customer orders processed. Recently, there have also been discussions between Ocado and Wm Morrison, UK's 4th largest supermarket, regarding its UK e-tailing expansion.

■ 'Click & collect' has grown in importance for major retailers, including Argos and, more recently, John Lewis. The logistic providers are expanding their operations in this area including UPS launching Access Point with 1,500 collection locations by mid-2013 and CollectPlus (PayPoint/Yodel) with 4,700 local corner shop collection points. These are yet another link in the UK e-tailing logistics market.

■ For the logistic providers, some companies have grown significantly during the past few years and leaders in the e-tailing sector have emerged.

GRAPH 4

E-tailing floorspace for retailers



Graph source: Savills

■ One to watch, is iForce, who employ around 600 staff and occupy 1.1 million sq ft of warehouses. Key clients include John Lewis Direct, Cath Kidston and Tesco. iForce offer innovative processes and technologies for the e-tailing world. A key question is how the outsourced e-tailing providers will expand in the future.

■ As shown in Graph 4 above, the smaller warehouse dominates for retailers. Even within a multi-channel warehouse, the floorspace allocated, for the majority, is quite small. This will grow in the future and emerge as smaller warehouse requirements, as we have seen in the recent past.

What do occupiers want?

■ Graph 5 below presents a Savills survey response to the preferences for future warehouse property features, irrespective of whether they are for e-tailing or not. The percentage represents the proportion that placed a 'high' importance on the factor.

■ Security is a major issue for the retailers. Lease flexibility and cost are of equal importance, which comes as no surprise. The more interesting result is the lower importance on the high-bay and new buildings. These issues are covered in more detail within the larger report, which accompanies

GRAPH 5

E-tailing retailers' preferences

Graph source: Transport Intelligence / Savills

this paper.

■ Graph 6 shows the relative importance of key factors in locating a distribution warehouse for e-tailing.

■ The percentages represent the proportion of respondents that assigned a 'high' level of importance. As with other surveys done in the past, there are not any surprises in the top rated factors. Occupational costs and labour are key.

■ However, it is more interesting to see that logistic providers place a higher importance on 'higher skilled' workers. This is due to the IT intensity of their warehouses. However, Savills do not expect a significant change in locational requirements going forward as a result.

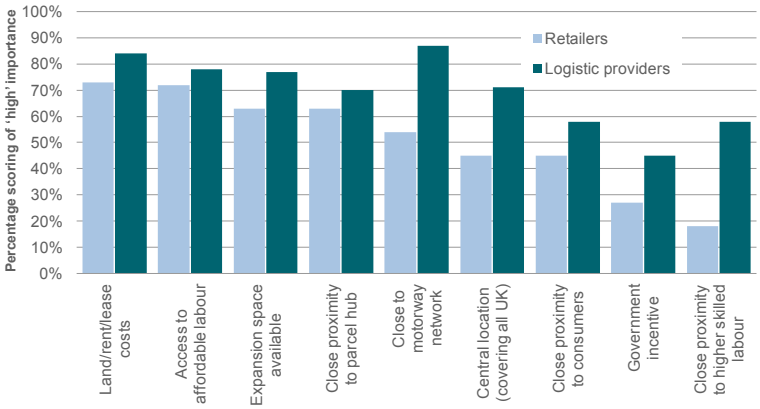
Outsource or not?

■ The results from the research show that third-party logistic (3PL) providers have adopted the attitude that their e-tailer customers will follow their traditional 'high street' counterparts. However, 18 of the top 20 e-tailers in the UK operate their distribution centres in-house.

■ From the extensive industry interviews, the systems required for e-tail operations are very different from those in the traditional retail market. One view from the interviews is that, so far, the 3PLs have not invested in developing bespoke solutions. Instead, smaller, specialist, companies are emerging, targeting the unique demands of e-tailers.

GRAPH 6

What factors are most important for locating an e-tailing distribution centre?



Graph source: Transport Intelligence / Savills

Changing distribution model

■ Savills review of the top 150 retailers shows that 10 are pure internet, with sales around £6 billion. Twenty-seven do not sell on the internet, mainly value retailers and smaller grocer groups. The remaining 113 are both 'bricks & mortar', i.e. have a high street/shopping centre presence and e-tailing operations.

■ The physical 'high street' presence today will continue to evolve and e-tailing will complement the in-store offering. However, retailers must ensure that stock and product choice remains as comprehensive on the 'high street'.

■ Graph 7 below shows two views of how the distribution model will change. Most logistic providers expect existing physical stores to stay and smaller warehouse fulfilment centres to emerge. This would favour 'click & collect'. Retailers expect that centralised UK e-fulfilment centres will emerge, perhaps the same larger warehouses that they are used to.

■ From a property perspective, the continuation of a centralised model reinforces the need to maintain a supply of the largest warehouses and development sites.

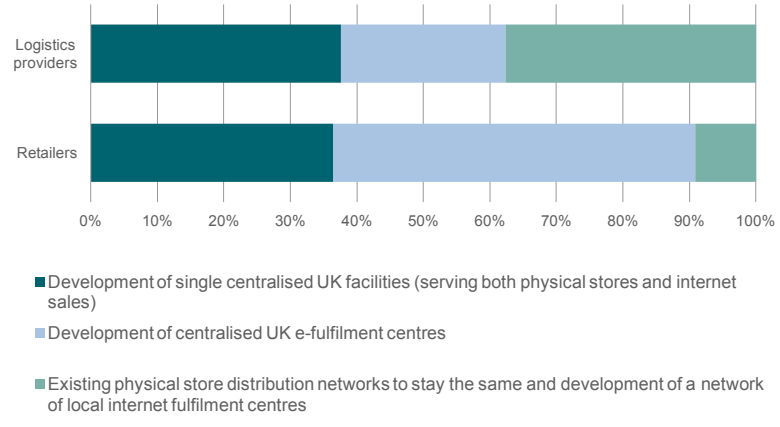
Where to locate?

■ The East Midlands emerged as a clear favourite in terms of locating a future warehouse. 43% suggested this as their preferred location. Greater London was the first choice for 17%.

■ Labour availability, proximity to customer base and parcel hubs are

GRAPH 7

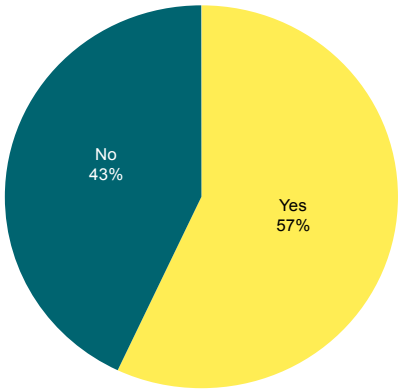
How will the distribution model change?



Graph source: Transport Intelligence / Savills

GRAPH 8

Have retailers considered a dedicated e-fulfilment centre in the near future?



Graph source: Transport Intelligence / Savills

all obvious locational factors for the e-tailing function. However, Savills don't believe that any of these key factors would necessarily constrain many UK locations and occupiers remain relatively footloose.

■ Other factors that are of 'high' importance to retailers include the security of site/building, flexibility of the lease, rent and staff costs.

Warehouse specification

■ For the e-tailer, nearly half (49%) of dedicated e-fulfilment warehouses are less than 50,000 sq ft. This compares to 31% for logistic providers.

■ Within a multi-channel warehouse, 62% of retailers allocated 5-10,000 sq ft to e-tailing. As mentioned earlier, the majority of e-tailers establish a dedicated centre when this level reaches 10-25,000 sq ft.

■ Will we see the revival of a modern e-tailing industrial estate? Could there be an asset management play on older industrial sites to provide secure, smaller, low-rise warehouses on the edge of town/city centres. Plenty of this stock exists today and is likely to be under-priced!

■ Finally, the occupiers were asked what additional rent they would pay for the 'ideal' warehouse for their e-tailing futures. The short answer, nothing. Developers/owners beware. Providing the right product will reduce voids, but they shouldn't be overly specified so that rental levels are above market rate.

■ More information regarding the specification of warehouses is included within the main report. Please see contacts below for a copy.

Savills Industrial & Logistics Agency

Market-leading leasing, sales and investment advice to occupiers, developers and investors.

Getting more and better value from industrial property requires accurate, up-to-date research and a high level of commercial awareness. Our industrial experts make use of our national network and dedicated research team to offer both. We offer extensive market knowledge across the UK and bring a wealth of experience to deliver innovative solutions for our clients. With teams in all the main regional cities we provide market leading services.

OUTLOOK

How will the market evolve?

■ The replacement of the high street with warehouses/home delivery is an extreme view and unlikely. 'Click & collect' will maintain high street and out-of-town presence. Overall, the warehouse will have an increasingly important role going forward within retailers' supply chains.

■ There will be an increasing number of players in the e-tailing market. Savills expect at least one new entrant to the market to compete with Amazon. Can we see eBay or Google warehouses on the horizon?

■ Dealing with returns is key for all aspects of the supply chain. Minimising costs, waste and maintaining customer satisfaction all need to be considered simultaneously. Logistic providers will support this function, but will require appropriate warehouses, including location and specification.

■ The large retailers and logistic providers will continue to drive the market, in terms of the demand for retail-related distribution warehouses. However, the niche logistic providers need to be monitored by the property industry. Savills have also reviewed, and researched, those retailers that are expected to drive the market going forward.

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