

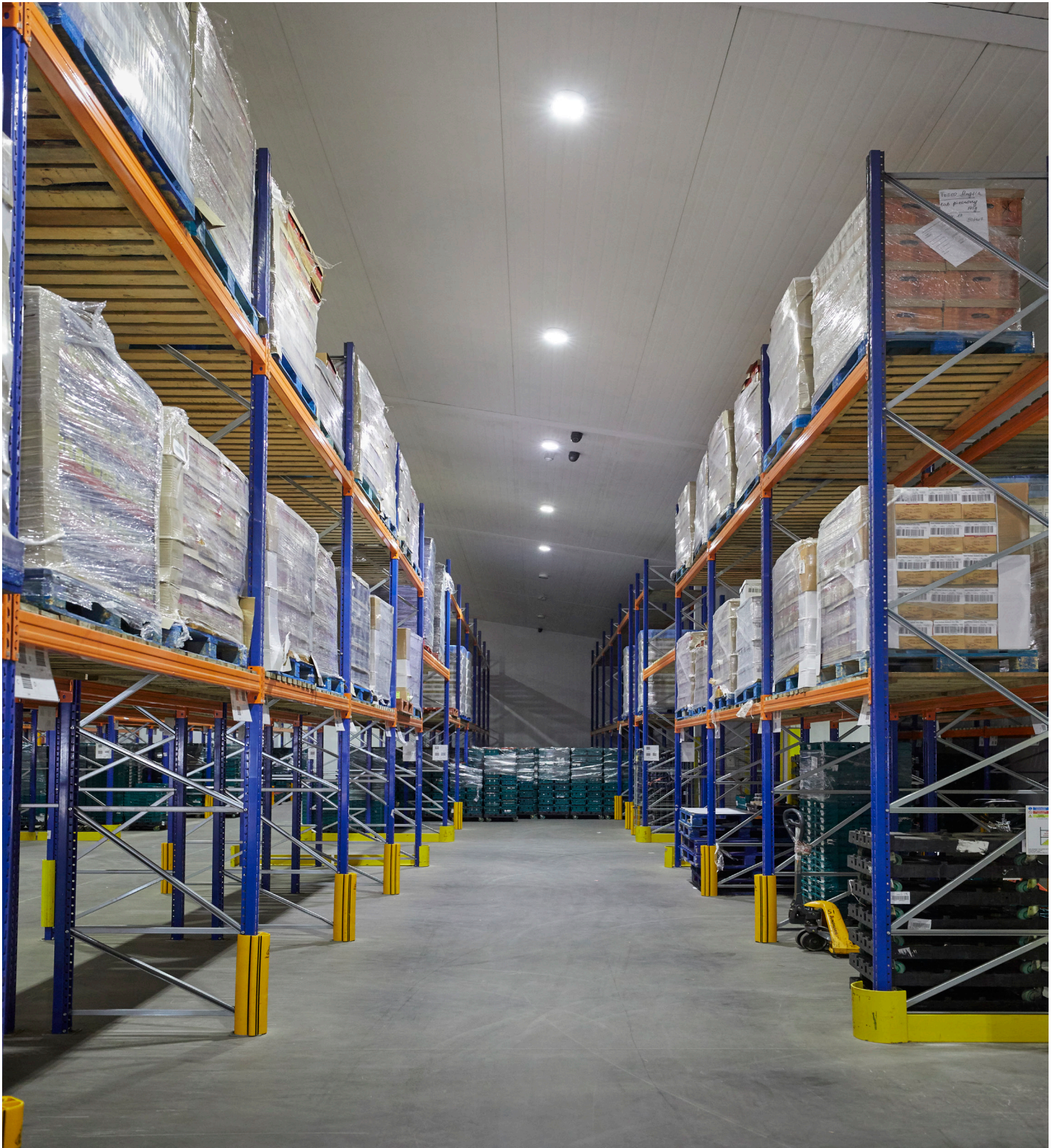
Commercial Research - 2020


SPOTLIGHT
Savills Research

UK Cold Storage Sector



In association with



Industry overview • UK Cold Storage Sector • The 3PL Sector

Cold storage warehouses are used to store any temperature controlled item to keep them safe by preventing deterioration, they are also used in order to adhere to the strict laws and regulations which come with some substances, such as vaccines



Foreword

Global trends suggest more and more cold storage space is needed, it is vital that we take stock of what we already have

If you don't measure it, you can't manage it. It's a widely quoted business maxim, but one that hasn't been acted on within the UK cold chain's warehousing estate, until now.

It is surprising, given the amount of interest there has been in our warehousing and storage capacity in recent years. The idea of 'stockpiling', ensuring we have capacity to hold stock in times of crisis, has been a recurring theme of public debate about Covid-19 and Brexit.

Industry people know well that it is neither possible, nor desirable, to stockpile our way out of problems caused by cold chain interruptions.

Nonetheless, having a clearer picture of what storage capacity there is and where it is located has numerous benefits in explaining our industry to government and managing crises.

Perhaps the reason it hasn't been done before is because it's not easy to do well. This report is only a starting point, but it is a signal of our intent.

As the new Cold Chain Federation we intend to be the impartial knowledge centre for cold chain in the UK. We are investing in unique and impartial data and insight to help those within, and outside our industry to have a better shared understanding of the size, scale, trends and value of temperature-controlled logistics in the UK.

We are grateful to partner with Savills, whose expertise in industrial logistics is without question. This report is the start of a partnership that will see us build our knowledge about the existing cold storage estate, its strengths and weaknesses and the opportunities it presents for investors, operators and customers.



Shane Brennan
Chief Executive
Cold Chain Federation

Key points



A growth in demand for cold storage space is fuelling increased investment in the UK cold storage sector



There are 678 warehouse units over 50,000 sq ft that make up the UK Cold Storage Sector, equating to 134m sq ft of warehouse space



Yorkshire and the North West are the dominant markets accounting for 29% of the total cold storage space in the UK, reflecting 38.5m sq ft of space



There is 5 sq ft of cold storage in the UK for each household. The South West and East of England outperform this metric accounting for 6 sq ft and 7 sq ft respectively



16.7 million sq ft of cold storage space is under construction or being fitted out, 75% will be occupied by retailers and a further 23% by 3PL's with the balance being occupied by producers



Short-term factors like Covid-19 and Brexit have shown that there is not enough cold storage space in the UK market

An era of change

A growth in demand for cold storage space is fuelling increased investment in the UK cold storage sector

Insulated walls and refrigeration systems are probably the only thing that cold chain facilities have in common. Aside from these physical similarities the purpose to which buildings are put, the types of products they store and the customers they serve can vary greatly.

One major distinction is between the ‘private’ cold storage facilities that exist to serve an integrated supply chain; and the ‘public’ stores that provide storage services to a range of customers. ‘Private’ facilities could exist to service a manufacturer – often located alongside a manufacturing facility; or they could be a retail consolidation and distribution centre. ‘Public’ stores operated by a third-party logistics provider exist for the purpose of selling a logistics service to a range of customers on a combination of short and long term contracts.

Some cold stores are long established, slow turning operations; others are modern, highly automated 24/7 operations, and everything in between. Some are located close to point of production or manufacture, others close to ports. Some exist to serve a national catchment area, others are located close to key customers.

This report comes at a time when the tectonic plates of our industry appear to be moving. After many years of a relatively static property market, a growth in demand is fuelling investment. Short-term factors like Covid-19 and Brexit have shown that



there is not enough cold storage space in the UK market to cope with spikes in demand. However, it is the long-term indicators of growing demand for frozen and chilled food and increasing UK exports which is driving overall growth.

Within the private chain, the need to respond to the dramatic growth in home delivery is creating a need for better located and designed facilities to deliver last mile fulfilment.

The good news is not universal. Businesses particularly exposed to the food service market face a period of medium term

uncertainty. Also big questions are starting to be asked about the suitability of older facilities for the future.

Ratcheting regulations on use of HFC refrigerant gases, increasing energy costs and the threat of carbon taxes on emissions are all factors that reinforce the sense that this is an era of change.

This report provides a baseline for us to observe and measure the changes underway. The Cold Chain Federation will be a source of information, insight and advice for everyone interested in the future of this exciting sector within the industrial property market.

Methodology and Caveats

In order to ascertain what the current make-up of the UK cold chain sector is, The Cold Chain Federation has worked with leading property consultancy Savills to analyse data from a number of sources, including the Valuation Office,

Savills in-house data, Cold Chain Federation data and other secondary sources.

We have examined data for warehouses over 50,000 sq ft and where possible verified the current tenant to provide analysis by industry sector.

Using data from the Cold Chain Federation has identified what part of the UK cold chain any companies fall into which has allowed us to undertake detailed analysis.

Using data from the Valuation office however does have certain time lags as properties may

not enter the rating list until occupied. Moreover, Valuation Office data only covers England and Wales, we have therefore sourced data on Scotland and Northern Ireland from The Cold Chain Federation and verified using secondary sources.

UK Cold Storage Sector

Market sizing the existing stock identifies some interesting trends and highlight the benefits of agglomeration

Within the UK our analysis has identified 678 warehouse units over 50,000 sq ft that make up the UK Cold Storage Sector. This equates to 134m sq ft of warehouse space, accounting for 12% of the total modern warehouse space in the UK over 50,000 sq ft.

Within these facilities we have identified 49m sq ft of space that is dedicated to frozen or chilled storage. The dedicated frozen and chilled storage is dominated by the retailers and 3PL companies, who between them account for 74% of the 49m sq ft identified.

At a regional level it is interesting to note that the cold storage market does not follow the same pattern as the traditional logistics market where the Midlands dominates the total stock figures. Instead, Yorkshire and the North West are the dominant markets accounting for 29% of the total cold storage space in the UK, reflecting 38.5m sq ft of space.

The Midlands region accounts for 22% of the cold storage stock in the UK, whereas in the traditional big box market 36% of the stock is located in the Midlands. In the most part this will be driven by the nuances of the UK cold chain, in terms of where food is imported in to and where production takes place.

On a per capita basis it is interesting to note that there is 5 sq ft of cold storage in the UK for each household, however regions such as the South West and the East of England outperform this metric and account for 6 sq ft and 7 sq ft respectively, again driven by the prevalence of units associated with processing and manufacturing in these regions.

Who occupies the space and where?

For analysis purposes we have assigned each occupier of cold storage space a classification in order to identify regional trends. Our classifications are:

Third Party storage

'Public' cold stores operated by independent third party logistics providers. These warehouses serve a range of chilled and frozen customers from farmers to retailers.

Retail and Food service

'Private' cold stores operated by major retailers and food service providers, eg. Regional Distribution Centres and other delivery hubs

Processing and manufacturing

'Private' facilities associated with the manufacturer or processing of temperature controlled products. Eg. meat and fish processing, or convenience food manufacture

Farming and Producers

'Private' facilities on farms associated with the storage of fresh produce after picking. Eg. fruit and vegetables

Other

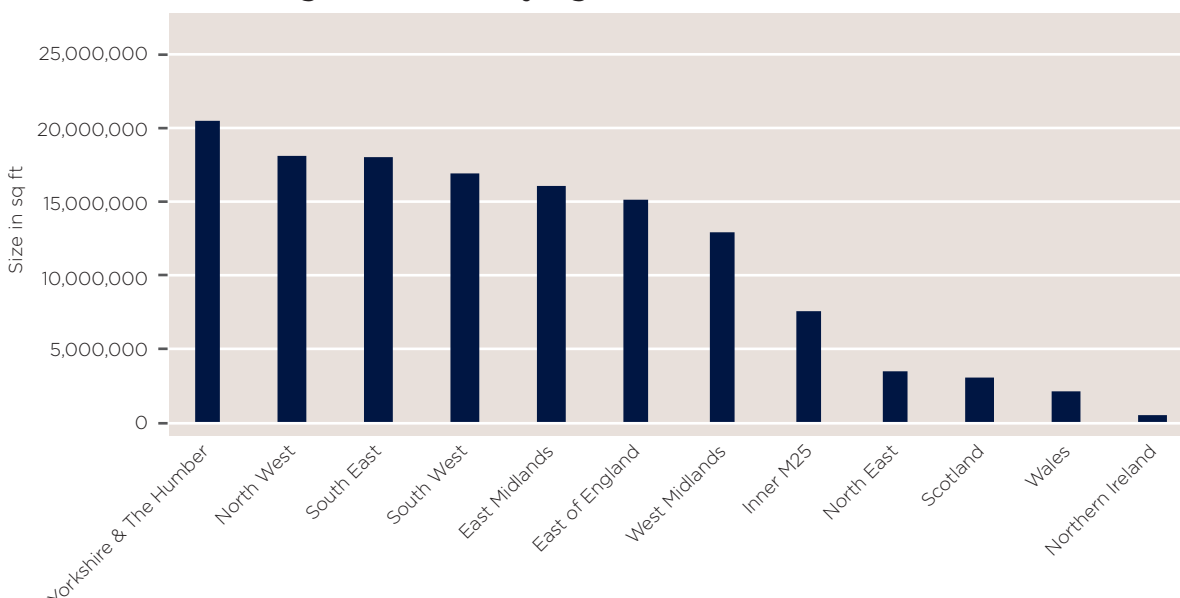
Vacant facilities or specialist warehouses.

Of the 678 identified units the dominant classification is processing and manufacturing which accounts for 42% of the cold storage units in the UK, representing 45m sq ft of warehouse space. However, by floor space the dominant occupier of cold storage is the retail and food service segment which occupies 40% (54.5m sq ft) of the 134m sq ft of space.

This can be explained by the fact that many food retailers will occupy larger warehouses for their fulfilment operations where as manufacturing facilities will tend to be smaller and solely focussed on a limited range of products or foodstuffs.

3PL operators make up 27% (181units) of the units occupied and account for 23% (31.5m sq ft) of the floor space occupied which broadly reflects the wider UK warehouse property market where 3PL companies have accounted for 21% of all transactions over the last 10 years.

Cold storage warehouses by region



■ Our sample has identified 678 units over 50,000 sq ft with a significant portion given to cold storage

■ This equates to 134m sq ft of warehousing of which there is 49m sq ft given over to cold storage

■ Yorkshire is the region that has most cold storage with 20.4m sq ft, equating to 15% of the total proportion

Analysing the occupier classifications highlights some interesting trends for the UK cold chain. Of the retail and food service companies included in our sample 30% of the units occupied are in the South East and London, driven by the higher population densities and service to the many restaurants and produce suppliers located there.

Indeed, undertaking the same analysis by floor space shows that in London and the South East 60% of all of the cold storage space is accounted for by the retail and food service sector.

In terms of farming and producers 50% of the units identified are in the East of England region which traditionally has been a centre for food production industries, whereas 29% of the 3PL operations identified are located in the North West or Yorkshire.

What size profile is the UK cold chain?

Perhaps the most interesting trends, particularly from a real estate perspective, come when analysing the UK cold chain by the size of unit occupied. Here some clear trends emerge as to who the likely occupier of the space is going to be.

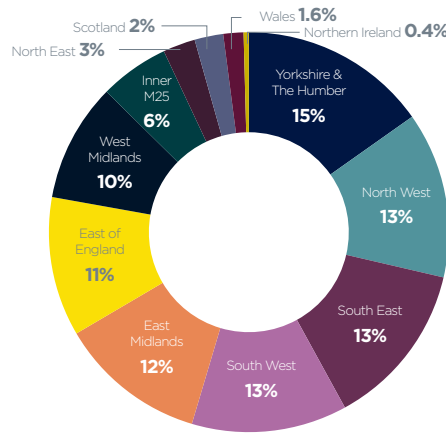
At the smaller end for units under 100,000 sq ft 76% of units are occupied by either 3PL's or processing and manufacturing companies with just 11% of facilities occupied by retailers.

Splitting the unit size into 100,000 sq ft size bands shows that the retail and food service sector increases the amount of space occupied with each size band increase, culminating in the fact that of the floorspace over 500,000 sq ft 78% (21m sq ft) is occupied by companies in that sector.

Pipeline

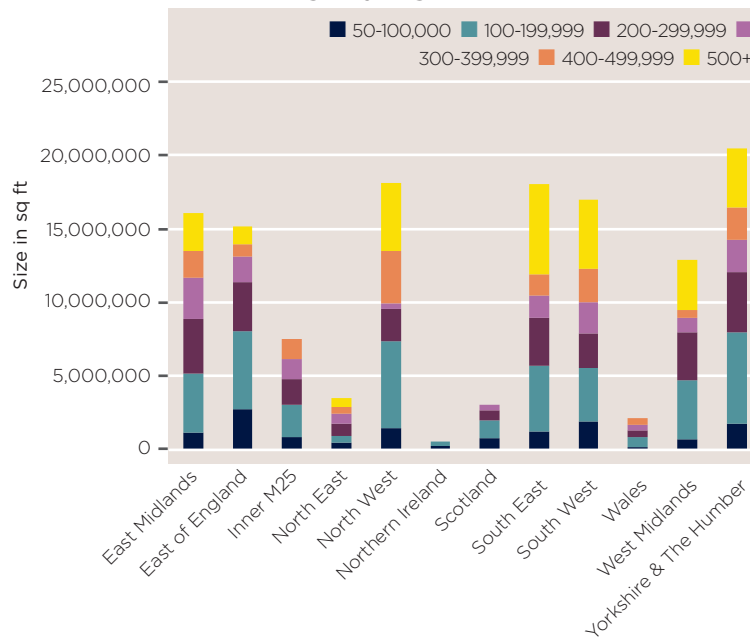
Analysing transaction volumes for the last 18 months shows a strong pipeline of additional units with a cold storage element which will be added to the total stock when complete. Our analysis has identified 22 units which total 16.7m sq ft which are either currently under construction or being fitted out by occupiers. Of these pipeline units 75% will be occupied by retailers and a further 23% by 3PL's with the balance being occupied by producers.

Cold storage warehouses



Source Savills Research

Cold storage by region and size

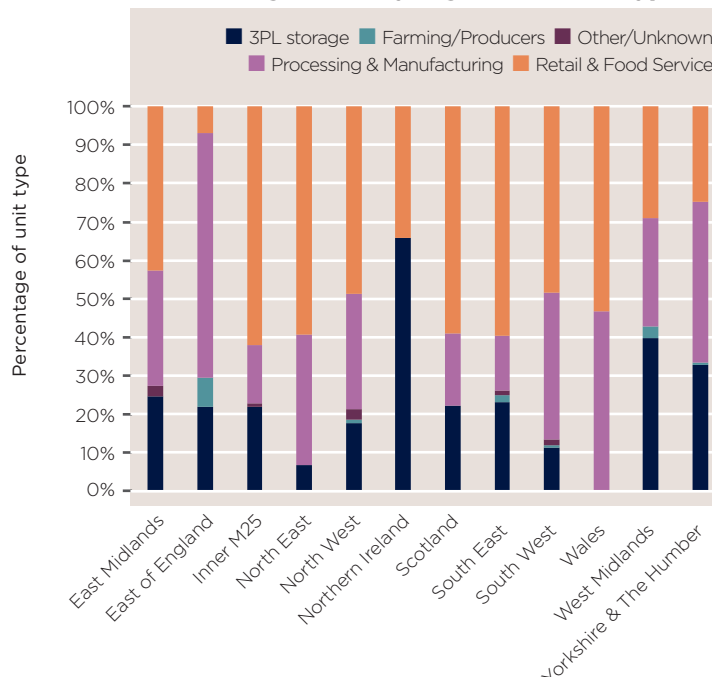


By unit count the most prevalent size band is the 100,000 to 200,000 sq ft category with 265 units or 39%

The SE has proportionally more units over 500,000 sq ft than any other region where 10% of the stock falls into this category

Source Savills Research

Cold storage units by region and unit type



By unit count 42% of the units are classified as processing & manufacturing facilities.

However, by floorspace 63% of the space is either retailer or 3PL distribution

In London and the SE 60% of the floor space is related to retailer distribution where as in the East of England 63% of the floor space is related to processing & manufacturing

Source Savills Research



Of the 678 units identified in the UK, 181 are occupied by companies in the 3PL sector

The 3PL sector in focus

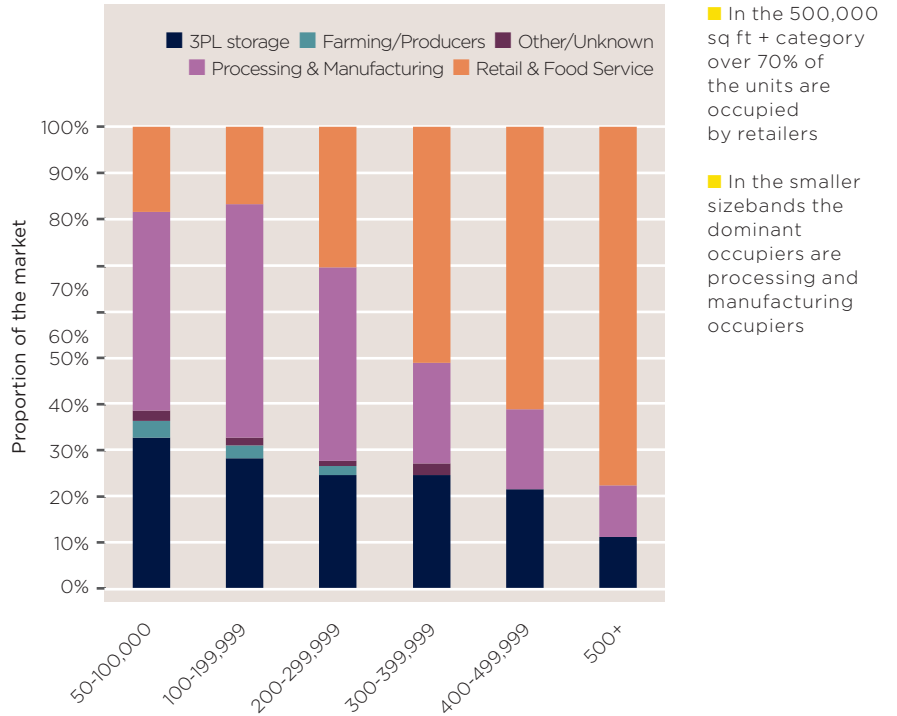
Of the 678 units identified in the UK, 181 are occupied by companies in the 3PL sector, accounting for 31.5m sq ft, with Yorkshire being the region with the most units (34) and also the highest floorspace (6.7m sq ft).

Other regions with a high concentration of 3PL occupied units are the West Midlands with 27 units (15% of the total), the South East with 23 units (13% of the total) and the East Midlands with 19 units (10% of the total).

As with the larger traditional logistics property market 3PL's have tended not to occupy space away from major population centres and also within London where property prices are more expensive. Indeed, London, Scotland, Wales and Northern Ireland account for just 13% of the unit occupied by 3PL's.

The majority of space occupied by 3PL's is in the smaller size ranges with 74% of the space occupied being under 200,000 sq ft. Just 7% of the units occupied by 3PL's are over 400,000 sq ft but this reflects 20% (6.2m sq ft) of the entire floorspace occupied by 3PL's.

Cold storage units by size and unit type



In the 500,000 sq ft + category over 70% of the units are occupied by retailers

In the smaller sizebands the dominant occupiers are processing and manufacturing occupiers

Source Savills Research



About the Cold Chain Federation

Cold Chain Federation is the voice of the temperature-controlled supply chain in the UK. Our members are made up of businesses who operate frozen and chilled storage facilities and/or temperature-controlled distribution vehicles plus companies who have mutual commercial or policy interests.



Savills Commercial Research

We're a dedicated team with an unrivalled reputation for producing well-informed and accurate analysis, research and commentary across all sectors of commercial property in the UK

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