DEVELOP CROYDON

Sustainability & Industrial

ROUND TABLE

WEDNESDAY 24 MAY 2023

SUSTAINABILITY & INDUSTRIAL IN CROYDON:

With demand for last mile logistics in London and the south growing at an exponential rate, it is a promising time for providers in the space. Sustainability is high on the agenda too; the market is having to shift and adapt to new legislation and meeting ambitious net-zero targets will require significant changes. Fulfilling this demand will also necessitate the need to upskill or acquire a workforce skilled in modern and sustainable logistics practices.

Develop Croydon

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SUSTAINABILITY AND INDUSTRIAL ROUND TABLE

Prologis Park, Beddington

ROUND TABLE ATTENDEES:
Bonnie Stephensmith, Associate Director, Develop Croydon & Chair of meeting, **Alex Gale**, Partner at SHW, **Simon Perks**, Director at Capital Deployment, Prologis, **A spokesperson for Amazon**, Economic Development, Amazon, **Alex Hickman**, Director, KSP/GLi.

On Wednesday 24th May, Develop Croydon brought together a panel of experts to discuss the last mile logistics space in Croydon, with a particular focus on the net-zero agenda and what businesses are doing to improve the sustainability of units in the borough. There were some positive updates about the industrial logistics sector in Croydon and its future, along with some interesting thoughts about how it can be improved and where there might need to be changes made.

What I&L trends are we currently seeing across the borough? What key demands do occupiers looking for space in Croydon have now?

Alex Gale: There's definitely a move to quality for new builds, with sustainability being right up there now in terms of the key criteria for the larger units. Whereas the office market had this three to four years ago, it's only now just coming through on the industrial market. We're getting more and more requests for EPC A+ and all the other sustainable parts of a building; PV panels and batteries as well, which are really key. For businesses looking for 20,000 sq.ft. or more, future-proofing their business while meeting all the potentially future EPC targets which are coming down the line is vital.

Amazon spokesperson: At Amazon, we do a lot of work to retrofit our buildings. In terms of outside of the building, we are rolling out micro mobility in West London. We launched our first Hackney site a year and a half ago, where we deliver on e-Cargo bikes around the Shoreditch area, and now we're looking at our existing delivery stations and last mile facilities to be able to do the same.

London is perfect for this, so we're looking at existing sites in Croydon and we're hoping to launch that this year.

Simon Perks: Sustainability from an embodied carbon perspective has been a key focus for Prologis for 15 years, so we're well placed in terms of how our portfolio is performing. In terms of future developments, everything that we're working on is designed to be EPC A+, so that all of the regulated energy demand of a building is dealt with through renewable energy sources and where it can be achieved we look to include a suitable roof array of photovoltaics.

Alex Gale: SHW are urging property owners to get to a Level B on the EPC now, rather than waiting until 2030. A lot of pension funds, developers and property companies that can afford it, are now actively looking to future proof their buildings.

Alex Hickman: Our two new sites in Croydon will be built to the same specification as the rest of the GLi portfolio, providing 100% electric powered, fully equipped car and delivery van EV charging points and battery storage to fit occupier requirements. We believe there is significant market demand for environmentally responsible real estate that saves on occupier costs. We set up the portfolio as a JV between KSP and Patrizia to provide ultra-sustainable industrial spaces within London as the growing last mile demand and changes in Government legislation have meant that the focus on sustainability is key.

Why is Croydon a good location for the industrial and logistics sector?

Alex Gale: A lot of the demands have been fed down from bigger corporates to their supply chain. We had one enquiry from a big car manufacturer, who said to the supplier that they had to be reaching net zero by 2030 and hence the need for a super-efficient new warehouse.
Croydon as a whole continues to be a centre for last mile logistics and regional logistic operations but we have also seen quite a lot of interest from the film and televisionsectors.

Simon Perks: As a developer, we are keen to look at land opportunities in and around the Croydon area. Further south the road network isn't as good, reducing the number of households that can be reached within a 30 minute drive time. One of the key benefits of Croydon is that you are able to leave a warehouse and start delivering to households immediately.

Amazon spokesperson: Croydon is the council we want to work with for the longer-term opportunities. Croydon is always brought up by our real estate team. In terms of London, we have a good spread of last mile facilities, but Croydon is always the preferred borough to work with.

Alex Gale: Croydon is considered part of the South London group, along with Mitcham, Sutton and Merton. Crawley is a different area and due to its location, it's cheaper. [One occupier] recently moved from Croydon down to Crawley due to cost implications, but then you have the costs associated with moving vehicles back up to London. Croydon and Sutton are the best last mile options for South London.
Alex Hickman: Our analysts spend a considerable amount of time to make sure that we are buying the right type of sites in the right location. Having now bought and received planning for our CR1 and CR2 warehouses, we are certain that they are a good investment as we have seen the growth in Croydon's logistics sector. Croydon is also a strong location to reach not only London but a large proportion of the South East as well.

What needs to be delivered to achieve ambitious sustainability targets faced by the industrial logistics sector?

Simon Perks: Grid capacity is an issue across London generally and it is something that we're looking at closely. A driving factor in achieving ambitious sustainability targets involves working with our customers to maximise their operational efficiency. We have a building in the Midlands where we have worked with the customer to better understand their energy demands, which has led to us installing multiple Tesla wall batteries. As a result, the building has spent approximately 40% of its time 'off grid' during the customer's occupation to date.

Amazon spokesperson: I agree that grid capacity is an issue. We store our vans at our last mile facilities overnight for that charging aspect. We are now going to roll out EV vansfrom June. It has been difficult to get that power connected, but we do have it, which has been very different from stories we're finding anywhere else.

Alex Gale: On the planning side of things it's all about densities, and this is where reality and what the council want don't always match up. The council are very keen for densities to be pushed up, and ideally they'd love to see multi storey development in Croydon, but I just don't think the financials stack up as yet and with the need to run out new electric vehicles to meet emissions targets, which only have a finite mileage in a day, there will always be a need for extra parking and large yards.

Alex Hickman: As developers of larger industrial sites, we always focus on the needs of our occupiers. We aim to make these developments as self-sufficient as possible. Supporting the transition to EV fleets is key to reducing the impact on the grid but also reducing carbon emissions in the local area, making it better for the community as well as the wider environment. All of our sites have maximum PV solar panels to access renewable electricity that can be connected to batteries either to store energy or potentially sell back to the grid, helping to drive down their energy bills which we know in the last year have sky rocketed.

What can be done to support occupiers to make changes to improve their sustainability credentials?

Simon Perks: We have a customer experience team who are out meeting clients on a frequent basis, understanding what their pain points are and how we can help them to improve the operation of their business.

Alex Gale: I've had quite a few inquiries for battery storage centres. These are on open storage sites, and they're almost like shipping containers that provide backup storage. When there's a surplus of energy, it goes into these battery storage centres and then it's used at peak time. But the main issue is balancing out the supply and demand, making sure the costs of what they pay for sites is balanced out by the money they're saving.

Alex Hickman: Due to the nature of our portfolio we aim to attract most of our tenants at the pre-let stage. This means we are able to work with them to embed as much of the sustainability criteria that they require as possible. We are putting in some of the latest technological innovations, working with occupiers to ensure the building remains as efficient as possible both from a building perspective but financially for the occupier as well.

What are the major challenges in achieving Net Zero?

Alex Gale: The cost!. There is a substantial additional cost to getting to net zero, which in turn will lead to additional rent that needs to be paid, in order to allow for a sensible return. A lot of the industrial developers are generally ahead of the game now, and they're all doing their bit for the environment, mainly backed by tenant demand and the need to future proof buildings and make their stock investment grade.

Simon Perks: The national grid is our biggest challenge. If the energy produced by a building's PV array exceeds the customer's demand and is not being used onsite, then a surplus of energy is created. If a decision is taken to sell the surplus energy back to the grid, then the price achieved will be less that what it was bought for. So there is no benefit unless the energy can be stored by batteries within the building for future use.

Amazon spokesperson: Cost and power are the two main challenges. For our EV sites, the business is considering whether they need to reduce what they're doing in Croydon and move it elsewhere. We're trying to meet conditions that have been agreed in the planning application. We want to run out 100% micro mobility, but there is going to be a 37 ton lorry dropping off pre-packed parcels, and councils won't accept that one lorry isn't electric. It's that expectation. We are trying, but now it's become such a hot political issue; it's gone from 0 expectation to 100, so we need to be practical about what we can do and manage expectations.

Alex Hickman: We believe that sustainability is not an added extra but creates additional value. We have to accept that initially some of these adaptations and changes we need to make do cost more in the short term, but when you look at the longer-term picture it can save significant time, money and energy. However, we believe this will make all of our portfolio a stronger investment and will attract occupiers, as we work together to achieve net-zero.

AI and automation will be key components of the industrial sector in the future. How can the industry support and equip both current and future employees with the skills to harness these technologies?

Amazon spokesperson: We recently ran a Careers Day for secondary schools' open morning at one of our sites in the Midlands, and over 100 children attended, part of which include a tour of a warehouse. A lot of the young people turned up with preconceived ideas about what a job in a warehouse is like, and they left thinking wow - there are some great opportunities open to me. So it really opened up their eyes. The job market is changing hugely in terms of the roles available in the Logistics sector, mainly due to the emergence of AI and automation, so we are regularly having conversations with local authorities about the kinds of jobs that can be created.

Simon Perks: We recently ran a schools open morning at one of our sites in the Midlands, and about 100 kids turned up to look around the Boohoo facility. A guy who had been at Boohoo for about three years, had wanted to work at a warehouse rather than go to university because of the jobs available. A lot of the kids turned up with preconceived ideas about what a job in a warehouse is like, and they left thinking 'wow - there are some great opportunities open to me'. So, it really opened up their eyes. The job market is changing hugely in terms of the roles available in the logistics sector, so we need to have more of those conversations with local authorities about the jobs that you can create.

CR1, GLi Croydon

Which skills are most required for the future? What can we do to challenge perceptions about working in an industrial setting, highlighting it as a progressive and rewarding career pathway?

Amazon spokesperson: STEM and engineering is the big one. If, for example, there was a very localised programme that the council and local businesses were working on, and we were looking for sites in that area but not necessarily in that postcode, and you had something that was much more aligned with the workforce requirements, it would force us to consider that postcode. We have multiple teams that do school and university outreach and talk to students about what it's like to work at Amazon.

Simon Perks: Prologis are doing a lot of work with colleges and schools, aiming to raise awareness of the types of jobs that are available in the logistics sector. A number of local authorities appear to think that the logistics sector are 'not the jobs that we want', and find that they're losing a number of their school leavers or graduates who re-locate to seek job opportunities in other areas. So there is undoubtedly work to be done to change perceptions.

KEY ACTIONS AND HIGHLIGHTS

1. The supply/demand dynamic means the market will remain strong for the time being. Occupiers will always need new sites to ensure sustainability goals can be met, however there are questions over which sub sectors will continue to grow.
2. Electric is the way forward. Occupiers should look into storage battery options in order to store surplus energy off grid for use during peak times.
3. One of the biggest issues facing the sector is planning; it can take years to resolve and secure planning permission, which is holding up positive changes being made in terms of sustainability.
4. More work needs to be done to educate students and councils around the types of jobs and opportunities available in the industrial and logistics sector. A shift in narrative is required around warehouse roles in order to showcase the huge amount of opportunities and exciting changes happening in the field.

If you are interested in Develop Croydon, or in coming to Croydon and seeing its office offer for yourselves on our one of our investor tours, please contact the team on info@developcroydon.com