

# PERE

## Logistics

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A full-page photograph showing a person in silhouette, pushing open a large, heavy metal door of a warehouse or container. The person is positioned at the bottom center, with their body angled towards the right. The door is made of dark metal with a grid-like structure. The background is a bright, overexposed light source, likely the sun, creating a strong lens flare effect that radiates across the top half of the image. The overall mood is one of industrial strength and opening up a new space.

**Time to shine**  
**Warehouses  
take center  
stage**

## KEYNOTE INTERVIEW

# Logistics as a power play



*Electricity supply is an important differentiating factor for warehousing sites and investors are becoming more aware of the opportunities it brings, say Oxenwood's **Jeremy Bishop** and **Peter Day***

Logistics is a sophisticated business these days and a warehouse is as likely to be filled with robots as with workers and forklift trucks. Automation increases the demand for power, as does the increasing use of electric vehicle fleets by logistics companies.

A site with limited power supply might therefore be unsuitable for certain clients, while the ability to generate power on-site may provide a valuable income stream for landlords. Investment manager Oxenwood's co-founder Jeremy Bishop, as well as asset manager Peter Day, explain how power has become a key part of the firm's UK strategy.

**Q** Why is power an important concern for industrial and logistics real estate investors?

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**Jeremy Bishop:** Some time ago we began to see the increased importance of power as a criteria for occupiers in the logistics real estate market. Much of this derived from the power requirements of the equipment they were using. There is an increasing amount of automation involved in warehousing, so ensuring there is availability of power is part of future-proofing a portfolio.

More recently we have seen the emergence of electric vehicles, notably the electrification of distribution company fleets. We had an inquiry recently from a retailer who wanted a site specifically to become a charging station for electric delivery vans.

**Peter Day:** There will be an inflexion point, sooner than we think, when we see distribution companies switch to electric vehicles. Electric van purchases now are driven by ESG reasons and clean air regulation, but we will rapidly reach a point where they are just cheaper over the life cycle than diesel.

This will trigger a seismic change to tenant's fleets, particularly in the parcel sector. The other key growth area is manufacturing, where we are seeing companies onshoring production and using more automation in order to reduce labor costs.

**Q** How and why does the power supply differ from location to location?

**PD:** Power is not a simple binary issue; it is not the case that you either have it



In need of power: Oxenwood leased a 72,740 sq ft warehouse in Warrington, UK to PPE manufacturer Globus for 10 years. Globus specifically required a high-power site to support its automated manufacturing

or you don't. For example, you might have two sites separated by a main road which are in all other senses identical, however the cost of connection for one could be £10 million (\$13.7 million; €11.2 million) more.

Very simply, the power available to a site depends on what's available in the macro grid, from the large power stations in the vicinity. There are some parts in the country where there's simply no more power available in the grid.

Then there is what is available in the localized grid. The micro factors include where the nearest substation is, what the existing cabling into the site is like. And if you want to lay new cabling, you need to know how many main roads you might have to dig up and how many properties you have to go through. It's a very tricky thing to map.

There is going to be a lot of pressure on power supply in the future, with more widespread use of electric cars and data centers hoovering up the available capacity. However, landowners cannot speculatively hoard power. You cannot sit on 10 MVA without a user for an indefinite amount of time; the grid would come and take it back off you.

**JB:** The existing power supply was

*“There is going to be a lot of pressure on power supply in the future, with more widespread use of electric cars and data centers hoovering up the available capacity”*

PETER DAY

essentially developed to serve the economy and industries of the time and thus is not always positioned ideally to serve the interests of the tenant occupiers of logistics. It has been referred to as a bit like the railway networks, which were largely developed in Victorian times, so it's not always the case that railway stations are exactly where they would be built today. As Peter says, there can be substantial costs to improving power to a site and it also takes time, which does not always marry with the need for the occupier and the urgency for the occupancy.

### **Q** How can you deal with issues of power and take advantage of them?

**JB:** We have developed a screening system which helps us with both identifying good quality sites and then focusing our search on where we might find opportunities to deploy capital into the logistics real estate sector. It is beginning to bear fruit on some of the things we are doing, both on our existing assets but also in terms of our future pipeline of investment and development opportunities.

**PD:** Together with various third parties and consultants, we've developed our own IP that effectively reverse

engineers the grids in certain key logistics locations and interchanges. We use our knowledge of logistics movements and the battery ranges of electric vehicles, and then we map out the micro locations to the nearest 100 meters where we know we can affordably deliver high-power units. We also target existing plots with high power, because with the right expertise you can hold on to these valuable connections going forward.

For the existing occupier, having the power there is a significant deterrent to moving and power can be a leasing unique selling point upon redevelopment. For example, we are promoting our Power Park in Devon, which has 4.3MVA on-site, and specifically targeting manufacturing companies considering onshoring.

### **Q Can you quantify the value of high power on a logistics site?**

**PD:** For some tenant requirements, if there is insufficient power, then you cannot let the building to them. However, we don't think the property market as a whole has grown sophisticated enough to say: "This site has 2MVA and that is a premium to value of 3 percent." It is not a straightforward calculation, as you may have a high-powered building in the wrong part of the country where it's not likely to be of any use to your occupiers.

For example, we acquired a site

in Weybridge, where we knew a high-power supply could be obtained, and leased our refurbished building to parcel company Hermes, which took a 15-year lease. The length of the lease was in part driven by the available power, because Hermes could future-proof their ability to roll out their electric vehicle program here.

**JB:** That said, I believe that increasingly there will be a disparity between those sites which have good power and those sites which don't, if building type and location are otherwise equivalent. I think there will be occasions where having good power will command a higher rent and even if not, it will certainly assist with the liquidity of leasing.

I can see us investing some of our opportunistic capital into sites with power, and some of those sites may not presently be logistics properties but may lend themselves to it in the future. They would make very suitable investments for more opportunistic capital.

### **Q Are there opportunities to enhance returns by generating power on site?**

**PD:** We think there are further opportunities to enhance returns. The logistics industry was once quite excited about being able to cover your roof in solar panels and export it to the grid, however in April 2019, those

exporting subsidies ended and interest waned. However, high-power tenants provide an inbuilt customer on-site so you don't need to sell it to the grid. If you can get an occupier who needs 2MVA for a continuous manufacturing process, for example, and they are prepared to sign a long lease, then it is compelling for us as landlords to put the solar in ourselves for a second income line.

A 200,000 sq ft roof might be able to generate up to 3KVA, which is a substantial supply but vulnerable if you have a run of cloudy days. This needs to work as a complement to a high-power grid connection so the tenant can draw renewable power whenever available without the risk of blackouts.

**JB:** We are also working with other alternative energy companies. There is a lot of interest in batteries, for example, as a way to provide a steady reserve power supply which could be used by occupiers when needed or exported back to the grid.

**PD:** Uninterrupted power supply is important for some clients, such as a temperature-controlled facility for example. So, if you imagine a large high-power campus, you could get enormous economies of scale from providing a communal backup power supply, standby power and power management services. There are really exciting opportunities here.

### **Q Is this just a UK play, or would it work in continental Europe?**

**JB:** We have put a lot of work into the UK initially, because it is relatively ahead of the curve in terms of commerce adoption and electric delivery fleets. The power situation is also less transparent in Europe. However, these considerations are important for all logistics real estate markets and as the sector continues to develop, power will form a key criteria for that part of our business. ■

#### **Power requirements for warehousing**

Facility	Power requirement (KVA)
'Traditional' logistics unit (200,000 sq ft)	100 - 200
Modern automated e-commerce facility (200,000 sq ft)	300 - 600
Temperature controlled facility (200,000 sq ft)	1,500 - 3,500
Manufacturing facility (200,000 sq ft)	1,000 - 4,000,000+
Trickle feed overnight charging for 50 vehicle van fleet (Type 1 & 2 Commando)	600 - 800
Fast charging for 50 vehicle van fleet (T2 Commando/CCS/CHAdeMO)	1,200 - 1,600
Rapid and ultra-rapid charging for 50 vehicle van fleet (CCS/CHAdeMO)	3,500 - 5,000

Source: Oxenwood



Oxenwood.com

# Capital of logistics



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