Industrial Open Storage

Knight Frank

2024

This report explores the expansion of the Industrial Open Storage sector across the UK, offering a detailed analysis of key metrics and emerging trends.

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What is Industrial Open Storage?

Industrial Open Storage, also known as Industrial Outdoor Storage (IOS), refers to industrial-zoned sites used for a wide range of purposes, including storing equipment, vehicles, goods, large containers, waste, scaffolding, and other weather-resistant materials. These sites are highly versatile and support multiple industry sectors, including e-commerce businesses, logistics, automotive, construction, transport, self-storage, and the film industry.

Open Storage is a nascent asset class in the UK, still considered to be in its infancy. It is typically viewed as a sub-sector within the broader Industrial and Logistics sector. However, growing occupier demand for better-quality sites has led to its rapid emergence as a specialised and distinct asset class in recent years. Like the wider industrial market, prime sites offering higher operational quality, superior features, and easy access to large urban centres, motorways and ports are the most attractive and increasingly sought-after.

A prime Open Storage site typically spans a minimum of one acre. It includes a levelled site with concrete surfaces capable of supporting high movement of heavy goods vehicles (HGVs), full servicing including power, water, and drainage, lighting, full security fencing, unrestricted planning, access, and use, and good accessibility, i.e., close to the major road network. However, Open Storage sites vary widely in form and quality, ranging from prime, best-in-class space to lower quality, often compromised sites unsuitable for repurposing and redevelopment, and instead are being used purely for storage purposes. Some better-quality sites may also fall short of prime due to size, location, access, or infrastructure. For instance, sites less than half an acre would struggle to accommodate HGV circulation and parking. Despite these limitations, less superior sites still serve as essential and cost-effective solutions for many businesses' operational needs.

Historically, the Open Storage sector has had a high proportion of single-site owner occupiers. However, the occupier base is expanding, leading to rising demand to lease the space. This demand, coupled with limited stock available for lease, is driving strong rental growth. This has generated a wave of interest from new investors, including institutional investors and investment managers specifically set up to target Open Storage, as the potential to benefit from rental growth and the ability to drive returns through active management becomes increasingly evident.

Prime Open Storage Case Study: Plot 2, Link Park Heathrow, West Drayton

Plot 2 at Link Park Heathrow in West London is an example of a prime, best-in-class site. Comprising a total area of 2.2 acres (92,000 sq ft), the yard is well-located with easy access to the M4 and M40, has full concrete surfaces, security, lighting, power, water supply and drainage. It also benefits from a three-sided, open-face building providing additional covered storage. Several adjoining plots totalling 6.8 acres (287,000 sq ft) are also available at the park.

Race for open space

Demand for Open Storage has evolved rapidly. Traditionally, these spaces were utilised for basic storage, predominantly by the construction industry and other similar businesses. However, the market has experienced a significant shift, with new and larger operators entering the market, and expanding the scope of Open Storage requirements. Increasingly, firms are using Industrial Open Storage sites as a long-term component of their operational strategy or distribution network rather than just for temporary storage needs. The sector now appeals to a broad range of occupiers, and sites are being used for various purposes, including car parking, housing large vehicle fleets, multi-faceted storage, last-mile distribution, waste processing, electric vehicle (EV) charging, and recreational use.

"Higher-quality storage facilities in central or prime locations with superior accessibility and transportation connections, particularly near large urban centres, are highly coveted."

Higher-quality storage facilities in central or prime locations with superior accessibility and transportation connections, particularly near large urban centres, are highly coveted. As a result, the M25/M4 market is experiencing the highest demand by occupiers prioritising optimal logistics and operational efficiency.

Over the past two years, Knight Frank has observed record levels of occupier enquiries for Open Storage sites. Requirements are broad in nature, with preferences spanning from large open yards to plots featuring substantial yards with smaller accompanying industrial units. Typical requirements range from 2 to 10 acres of land, though some occupiers are seeking sites as large as 20 acres. The quality of sites required can also vary significantly, depending on their intended end-use.

"Over the past two years, Knight Frank has observed record levels of occupier enquiries for Open Storage."

How are occupiers using Open Storage sites?

EV CHARGING

The recent shift towards electrified delivery fleets, driven by companies' net-zero targets, has heightened the demand for additional electrical fleet parking and charging facilities. Where yard space is limited, some occupiers are leveraging Open Storage to install EV charging infrastructure. These sites require substantial power capacity. Amazon has been actively expanding its EV fleet to achieve net-zero carbon emissions by 2040, resulting in a wider search for Open Storage space and vehicle parking facilities near its delivery hubs centres.

BATTERY STORAGE

Advances in battery technology and growing demand for renewable energy are driving the use of Open Storage sites to accommodate battery units. These facilities are being used to store energy that can be fed back to the grid and necessitate ample space and robust infrastructure to manage the storage and distribution of energy effectively.

FILM EQUIPMENT STORAGE

Film production companies are utilising Open Storage space to store essential equipment, props, and sets used in film production. These sites require robust security features and easy accessibility to accommodate large items like cameras, lighting rigs, and set decorations, ensuring they are readily accessible for film shoots. Production companies leverage Open Storage to assemble and store temporary sets and facilitate transportation to filming locations.

CONSTRUCTION INDUSTRY

Businesses from the construction industry are one of the more traditional Open Storage users. These sites are used for storing bulk and specialised construction materials, housing heavy machinery and smaller tools, and serving as staging areas for pre-assembly and organising deliveries. Additionally, sites are used to manage waste by temporarily holding debris and segregating recyclable materials.

LAST-MILE DISTRIBUTION

Catering to the growing demands of e-commerce, Open Storage space can provide an alternative to urban warehouses for last-mile distribution. These sites are located near urban centres and transportation hubs, offering flexible solutions for sorting, packaging, and dispatching goods awaiting final delivery to end-consumers.

In June 2024, 0.5 acres at Europa Park, Magnet Road in Thurrock, was let to parcel delivery service, Risks Group, on a 10-year lease while in 2021, Movianto, who provide pharmaceutical and medical supply chain solutions, signed a 10-year lease on 0.43 acres at the Former Unwins Site in Dartford.

DARK KITCHENS

Open Storage sites are used by operators like Deliveroo and Just Eat, who utilise prefabricated containers for ultra-fast delivery operations in the form of dark kitchens. Sites used for this purpose are usually situated in urban areas with convenient transport links for delivery to end-users.

‘JUST-IN-CASE’ STOCK – IMPORTS & EXPORTS

Supply chain disruptions and changes to import/export regulations in recent years have prompted companies to seek additional space for holding larger volumes of stock. Facilities located near ports help to mitigate risks associated with port delays and trade uncertainties, enabling businesses to reduce transportation costs by minimising journeys to and from ports.

RECREATIONAL USE

A recently emerging trend is the repurposing of underutilised Open Storage sites for recreational uses, such as paddle tennis courts. This adaptation of space includes installing court surfaces, fencing, lighting, and seating areas. These facilities are typically located on prominent plots to maximise public accessibility and visibility.

RAIL FREIGHT

Open Storage sites located near rail terminals enable companies to optimise supply chain operations by storing containers for rail freight. Sites are used to accommodate a variety of cargo types and sizes, enabling efficient transhipment between rail and other transport modes.

> “Large fleets managed by third-party logistics (3PL) companies create a need for additional parking to support their operations, particularly for large logistics companies operating in urban warehouses with limited yard space.”

SELF-STORAGE

Open Storage facilitates containerised self-storage by providing secure and accessible space for individual storage. These sites, occupied and managed by companies specialising in self-storage solutions, offer customers a secure and flexible storage solution for personal belongings, business inventory, or equipment, making it a cost-effective alternative to traditional indoor storage facilities.

WASTE PROCESSING / WASTE MANAGEMENT

Occupied by waste management and recycling companies, Open Storage sites provide space for sorting and temporary storage of waste materials before being transported to recycling facilities or landfills.

For instance, plot 6 at Link Park Heathrow (0.51 acres) in West Drayton was let to Recycling With Skips in June 2024 on a 5-year lease. Recycling With Skips provides skip hire and waste management services.

VEHICLE STORAGE

Much of the space occupied in the South East region over the past few years has been for vehicle parking. These sites serve as hubs for fleet management, accommodating trucks, vans, and other specialised vehicles. Industries like automotive dealerships, rental agencies and transport companies are utilising space for vehicle storage and management.

Some notable lettings over the past two years include 0.5 acres on Goat Road, Mitcham, let to bus operator, Go-Ahead, in February 2023, on a 2-year term at £6.00 psf. Go-Ahead uses the space to store, wash, and re-fuel buses. Earlier this year, a one-acre plot at Thurrock Open Storage Park in West Thurrock was let to a vehicle recycle company, Redcorn, for five years at £5.50 psf. Other recently active occupiers have included British Car Auction (BCA), Jaguar Land Rover (JLR) and Enterprise Flex-E-Rent.

Additionally, the large fleets managed by third-party logistics (3PL) companies create a need for additional parking to support their operations, particularly for large logistics firms operating in urban warehouses with limited yard space. Kammac has been particularly active in acquiring yard space to accommodate its fleet.

What does an occupier look for in a site?

SURFACING

A concrete surface is the most common requisite for a site of higher operational quality. Concrete can withstand heavier loads, such as the circulation pressure of HGV and machinery, and heavy stacks of containers and large equipment. Tarmac – a more cost-effective alternative to concrete – is suitable for lighter vehicles, while temporary or softer surfaces are adequate for storage but not for heavy traffic movement.

PLANNING

Unrestricted B8 / B2 planning is most sought-after by occupiers, allowing greater flexibility for storage and distribution activities. Not all B8 sites will automatically have consent for Open Storage, therefore planning permission is generally required for legal use. Permission for temporary use is less preferred but is the next best option.

SECURITY

The site should feature palisade security fencing and gating, as well as power for CCTV.

ACCESSIBILITY

Easy vehicle access, ample mobility and circulation space, and unrestricted 24/7 entry. The site's location is also important, ensuring occupiers can easily access a major road network for efficient transportation.

UTILITIES / SERVICES

These include electricity, water supply and drainage. A site that has welfare facilities or access to them is often a bonus but not essential. EV charging infrastructure and Battery Energy Storage Systems (BESS) are increasingly sought after, given the wider industry's focus on net zero targets. However, delivering the large amount of power required for these sites involves significant time and cost challenges.

LEASE STRUCTURES

Generally, occupiers require a minimum lease term of three years. However, some tenants prefer the security of a longer-term commitment, particularly if the site has development potential, serves as a strategic acquisition and is integral to their distribution or business operations, or if tenants anticipate future needs such as vehicle charging capabilities or the ability to expand.

Supply squeeze

Like many markets within the wider UK industrial sector, the supply of prime Open Storage sites is highly constrained. It is particularly acute in London, and our analysis of total Open Storage availability across the London and South East region found that only a handful of sites (less than ten) would be considered new or 'prime'.

In terms of the development pipeline, one of the largest sites with planning consent is Site L at Marchwood Industrial Estate in Southampton. The area spans eight acres of Open Storage land with easy access to the Port of Southampton, and benefits from power infrastructure, hard-core surfacing, fencing and 24-hour on-site security. Another consent in the pipeline is 2.9 acres of Open Storage space at Tilers Road, Kiln Farm in Milton Keynes. Features to this site include power, fencing, security, hardcore surface, and ample parking space. In Yorkshire, the development of a 2.7-acre site at Selby Energy Park in North Yorkshire was granted consent in June 2024, to include fencing, hard and soft landscaping, and associated highways works.

"The price of ready-mixed concrete in the UK has increased by 58% since 2015 (index-based on prices in Jan 2015 set at 100), with a particularly steep 49% increase observed between June 2021 and June 2024."

Our analysis of recently granted consents in the London and the South East region found that the vast majority of sites are less than one acre, highlighting the limited pipeline of prime sites available to meet the increased demand.

The shortage in both existing and pipeline supply can be attributed to several factors, including land scarcity, difficulties in securing planning permission, and escalated input costs - predominantly the rise in concrete prices.

CONCRETE INFLATION

High inflation over the past few years has impacted all businesses, not least for the construction industry. The price of ready-mixed concrete in the UK has increased by 58% since 2015 (index-based on prices in Jan 2015 set at 100), with a particularly steep 49% increase observed between June 2021 and June 2024. Over the past 18 months, 14% inflation has been recorded. These heightened costs associated with laying concrete to bring prime sites forward has further impacted supply.

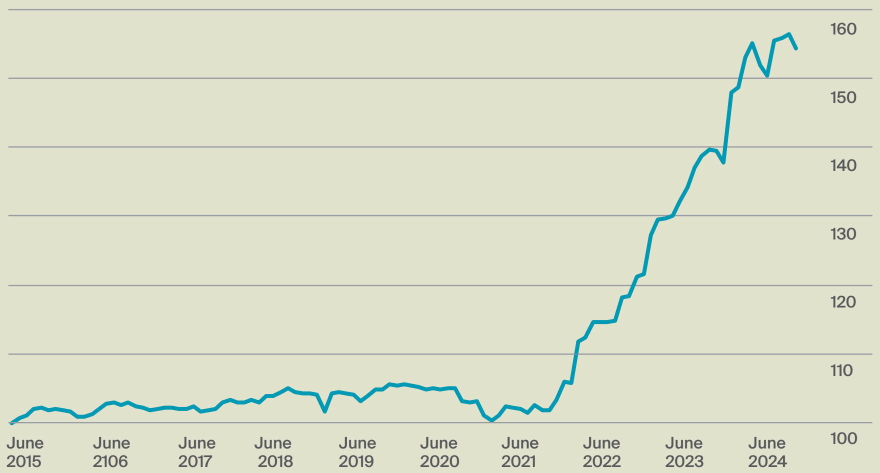
629

hectares of vacant industrial land has been lost to non-industrial over the 19-year period, a decrease of 72%.

LONDON'S LOST LAND

The significant amount of warehousing development that has taken place over the last decade has meant that many Open Storage sites have already been redeveloped, while Open Storage is often a temporary use on sites earmarked for redevelopment.

Producer Price Index, Ready-Mixed Concrete
Index 2015 = 100



Source: Macrobond, Knight Frank Research

The scarcity of viable land for Open Storage is particularly pronounced in infill markets within Greater London. Sites in London have traditionally been focused on pre-regeneration sites, with some of these sites being used for storing construction materials and machinery during the redevelopment process. However, extensive regeneration projects over the past 20 years have reduced the amount of Open Storage available, with demand consequently focusing on a diminishing pool of available sites.

At the same time, demand is expanding. Initiatives for cleaner air, congestion reduction efforts in London, the adoption of EV charging infrastructure for delivery vehicles, and a broadening tenant base including film studios, transport and logistics firms, and requirements for additional vehicle parking, e.g. at Heathrow, are all factors driving this trend.

Increasing the supply of Open Storage space will always be challenging, given the competing pressures on existing industrial land, and the intense competition with residential and other employment uses. London's dense and growing population intensifies the demand for both new housing and strategic warehousing and distribution centres, further emphasising the scarcity of suitable Open Storage sites in the city.

According to the London Industrial Land Supply Study (March 2023), 1,483 hectares of industrial land was lost to non-industrial uses between 2001 and 2020, a contraction of 18% in London's industrial land stock. The share of vacant industrial land across London has also constantly decreased over time; 629 hectares of vacant industrial land has been lost to non-industrial over the 19-year period, a decrease of 72%.

PLANNING OBSTACLES

Challenges in the planning process can often obstruct or delay the development of new, high-quality, Open Storage sites. Prioritisation in the planning system for other types of development has reduced the availability of land for Open Storage, particularly in urban areas of high demand like Greater London.

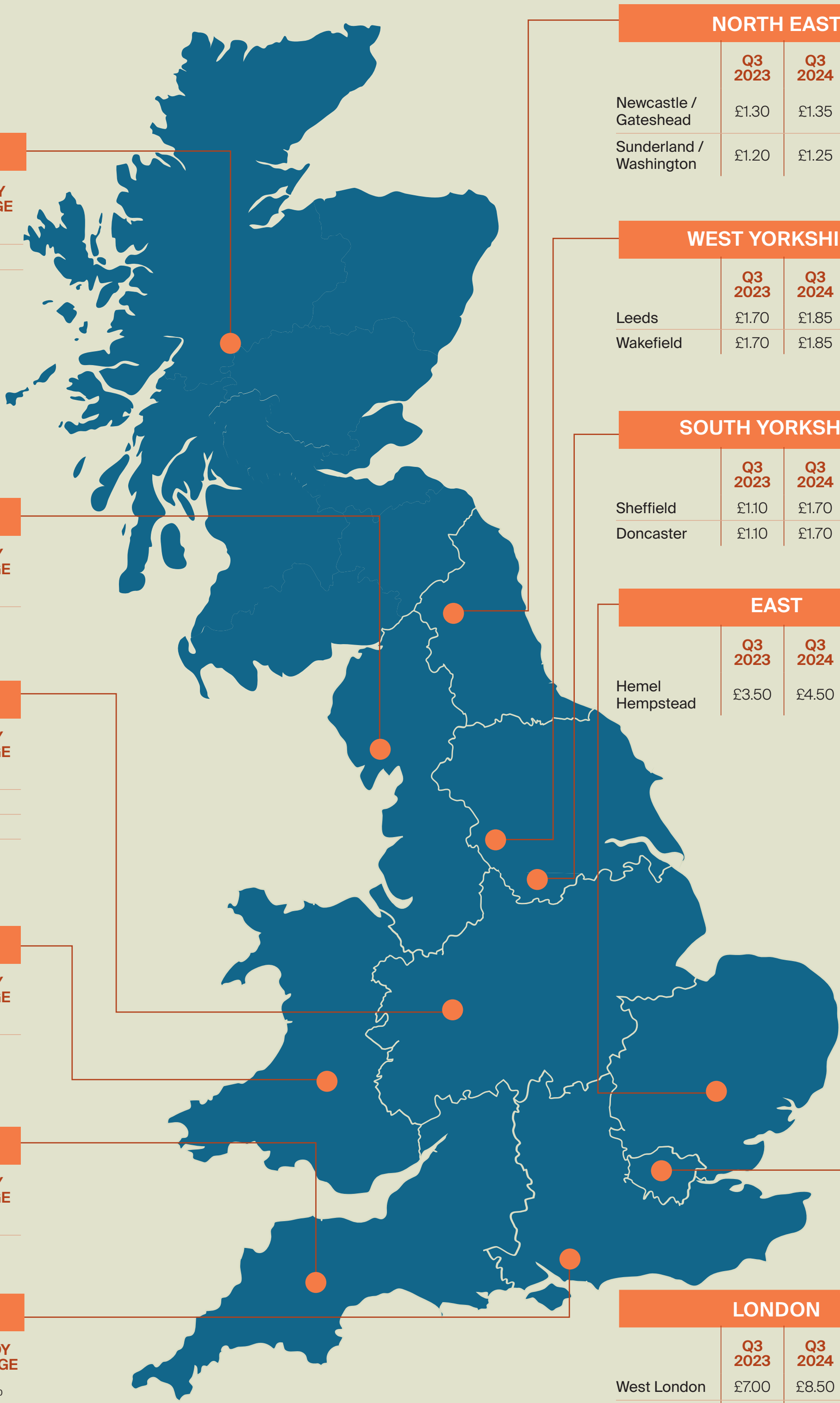
Policy makers and developers are pursuing strategies of intensification and co-location to optimise land use and address urban challenges. The London Plan 2021 highlights the strategic importance of industrial mixed-use intensification and co-location to address the city's space constraints and evolving economic needs due to London's growing population. The report emphasises integrating industrial uses with compatible residential and commercial uses within the same site or area, optimising land use through higher plot ratios. This approach will further constrain the already scarce supply of Open Storage land.

"The scarcity of viable land for Open Storage is particularly pronounced in infill markets within Greater London."

Perfect storm for rental growth

Prime UK Submarket Open Storage Rental Map, Q3 2024

Prime Open Storage rental values (psf) at Q3 2024 and annual % growth



SCOTLAND

	Q3 2023	Q3 2024	% YOY CHANGE
Aberdeen	£1.00	£1.25	25%
Edinburgh	£1.00	£1.25	25%
Glasgow	£1.25	£1.75	40%

NORTH WEST

	Q3 2023	Q3 2024	% YOY CHANGE
Manchester	£1.85	£2.30	24%
Liverpool	£1.40	£1.85	32%

MIDLANDS

	Q3 2023	Q3 2024	% YOY CHANGE
Birmingham	£2.30	£3.50	52%
Leicester	£1.70	£2.50	47%
Northampton	£2.30	£3.50	52%
Coventry	£2.30	£3.25	41%

WALES

	Q3 2023	Q3 2024	% YOY CHANGE
Cardiff	£0.90	£1.25	39%
Newport	£0.80	£1.00	25%

SOUTH WEST

	Q3 2023	Q3 2024	% YOY CHANGE
Bristol	£1.70	£1.85	9%
Swindon	£1.85	£2.00	8%

SOUTH EAST

	Q3 2023	Q3 2024	% YOY CHANGE
Crawley	£2.50	£3.00	20%
Southampton/ Portsmouth	£2.00	£3.00	50%
Maidstone	£2.00	£3.00	50%
Reading	£3.50	£4.00	14%

NORTH EAST

	Q3 2023	Q3 2024	% YOY CHANGE
Newcastle / Gateshead	£1.30	£1.35	4%
Sunderland / Washington	£1.20	£1.25	4%

WEST YORKSHIRE

	Q3 2023	Q3 2024	% YOY CHANGE
Leeds	£1.70	£1.85	9%
Wakefield	£1.70	£1.85	9%

SOUTH YORKSHIRE

	Q3 2023	Q3 2024	% YOY CHANGE
Sheffield	£1.10	£1.70	55%
Doncaster	£1.10	£1.70	55%

EAST

	Q3 2023	Q3 2024	% YOY CHANGE
Hemel Hempstead	£3.50	£4.50	29%

LONDON

	Q3 2023	Q3 2024	% YOY CHANGE
West London	£7.00	£8.50	21%
East London	£5.50	£6.00	9%
North London	£6.00	£7.00	17%
South London	£6.50	£7.50	15%

Source: Knight Frank Research

The convergence of increased concrete costs and a scarcity of suitable land has driven up rental values for the limited number of prime opportunities that are available.

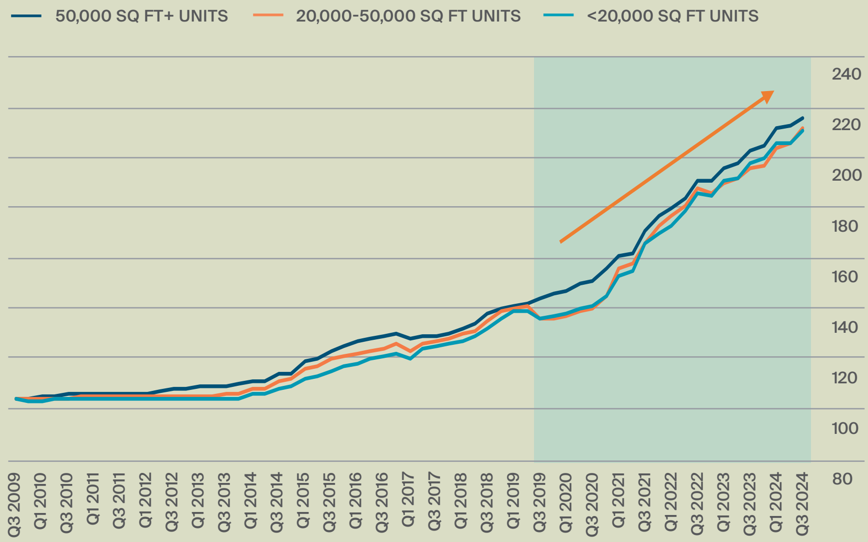
Over the past year (to Q3 2024), prime Open Storage rents across the UK have grown faster than prime industrial warehousing. Prime industrial rents across the key UK markets have grown by 6.8% annually (units over 50,000 sq ft). By comparison, rental values for prime Open Storage sites rose by 24% over the same twelve-month period.

While the faster rental growth for Open Storage is partly due to its lower starting base, a significant factor has been the limited supply of Open Storage options. In contrast, the supply of prime UK industrial warehouses has increased over the year due to more subdued demand, a rise in construction completions, and the availability of more second-hand stock. The UK industrial vacancy rate softened from 4.7% in Q2 2023, to 6.9% in Q2 2024 (Source: Knight Frank Research). As a result, despite continued rental growth in warehousing, the pace of growth has moderated over the past two years.

> "Prime industrial rents across the core UK markets have grown by 6.8% annually (units over 50,000 sq ft). By comparison, rental values for prime Open Storage sites rose by 24% over the same twelve-month period."

Prime Industrial Rental Value Growth

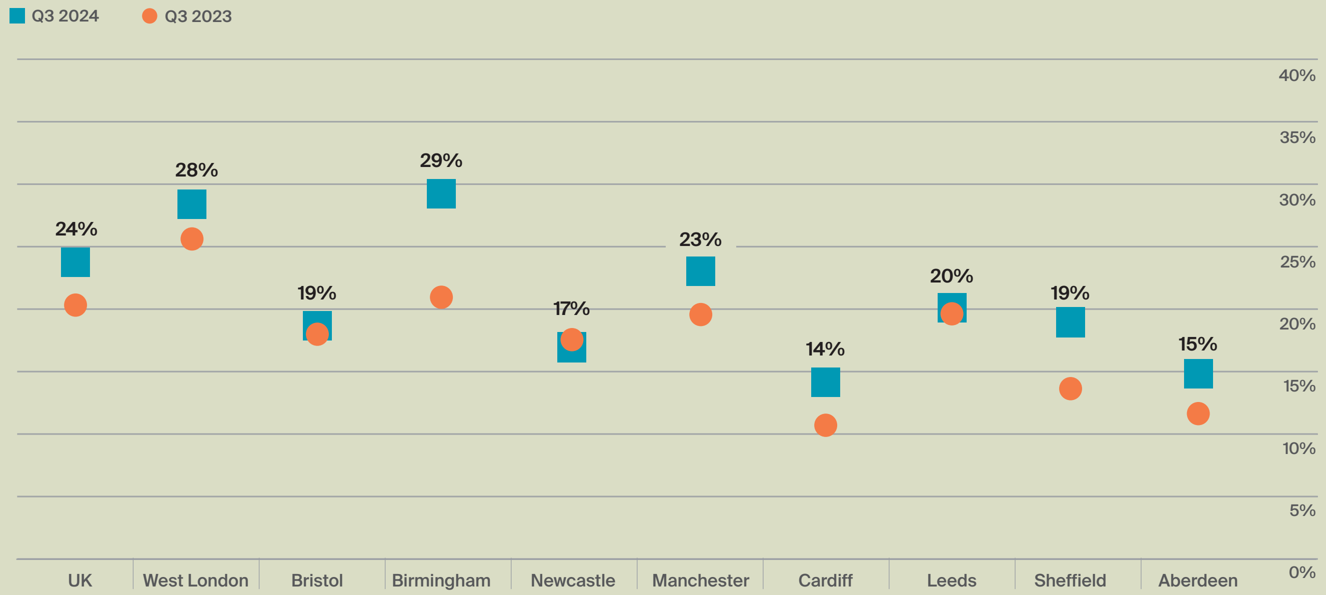
Index Q1 2009 = 100



Source: Knight Frank Research

Rental gap between prime Open Storage and prime conventional industrial has narrowed

Prime Open Storage rents as a % of prime industrial rents*



*Prime Open Storage = minimum of one acre. Prime industrial = units over 50,000 sq ft. Source: Knight Frank Research

A region-by-region analysis shows that the strongest annual growth in prime Open Storage rents is in South Yorkshire (+55%), followed by the Midlands region (+53%) and Scotland (+31%). In Wales and the North West region, 27% and 26% year-on-year growth was recorded, respectively, while prime Open Storage rents in the London and the South East region grew by 20% annually.

Prime rents in West London stood at £8.50 psf in Q3 2024, representing 21% annual growth. In North London, prime Open Storage rents grew by 17% year-on-year to £7.00 psf, while a 15% rise was recorded in South London to £7.50 psf, and +9% in East London to £6.00 psf.

Prime Open Storage rents in London and the South East region are highest due to the limited supply of industrial land. Intense competition contrasts with regional cities, where larger plots close to major motorways, ports and rail, are offered at more affordable rates. Outside of London and the South East, prime Open Storage rents in the Midlands region are highest, with rents standing at £3.50 psf in both Birmingham and Northampton. Meanwhile, prime rents are currently £2.30 psf in Manchester and £1.85 psf in both Bristol and Leeds.

MIND THE GAP

Prime rents for industrial units over 50,000 sq ft have increased by 53% over the past five years to Q3 2024. During the same period, rents for prime units between 20,000 and 50,000 sq ft sq ft rose by 59%, and rents for units under 20,000 sq ft increased by 58%. Rising industrial rents are accounting for a greater proportion of operational costs, prompting occupiers whose storage needs are not limited to indoors, to consider Open Storage sites as a more cost-effective alternative. This, in turn, is creating strong rental growth in the Open Storage sector.

The gap between prime Open Storage and prime conventional industrial is narrowing. At the end of Q3 2024, prime rents for Open Storage were 24% of prime industrial warehousing rents, tightening from 20% one year ago.

Among the core UK markets, the smallest rental gaps are in Birmingham (29%) and West London (28%). In West London, prime rents for units over 50,000 sq ft stood at £30.00 psf in Q3 2024, up from £27.50 psf in the same quarter one year ago. At the same time, prime Open Storage rents increased to £8.50 psf, from £7.00 psf recorded twelve months prior. This has narrowed the rental gap between prime Open Storage and prime industrial in West London to 28%, from 25% recorded in the previous year (+290 bps). Similarly, prime rents in Birmingham stood at £12.00 psf in Q3 2024 (units over 50,000 sq ft), increasing from £11.00 psf one year ago. Prime Open Storage rents rose from £2.30 psf to £3.50 psf over the same period. This considerably narrows the rental gap in Birmingham to 29%, from 21% recorded in the previous year (+830 bps).

Among all other core regional markets, large changes were observed in Sheffield, narrowing from 13% to 19% (+550 bps), followed by Manchester, from 19% to 23% (+350 bps), Cardiff from 11% to 14% (+330 bps) and Aberdeen from 12% to 15% (+290 bps). This indicates that prime rental growth for Open Storage in these markets has outpaced that of conventional industrial warehouses (units over 50,000 sq ft).

MARKET VIEW

Sam Royle
Partner, Manchester
Logistics & Industrial Agency

The Open Storage market is somewhat segregated between unsophisticated occupiers occupying land on an informal basis at relatively low rents, and more corporate occupiers who require land for strategic operational purposes. The challenge has been to temper landlords' aspirations because, while an increasing number of occupiers will pay premium rents for the certainty and quality of the land, there is still a significant part of the market that has yet to catch up.

There is now a much greater depth in the occupier market. While occupiers taking space were traditionally haulage, aggregate and construction companies, we are now seeing increased demand from EV charging operators, renewable energy, and leisure operators.

Demand from occupiers seeking further space for HGV parking to satisfy their operators' licenses has also increased.

Landlords and developers charge significant premiums for buildings with low site cover or cross-dock facilities, leading some occupiers to seek additional storage land offsite to cater for their fleet of vehicles.

The occupier base is broad, and while some parties seek affordable short-term solutions (less than three years), an increasing proportion of occupiers are taking longer-term leases (five years+), more in line with traditional warehousing leases. This segment of the market demands the highest quality specification, including drainage, concrete, security, lighting, and power to reflect the longer duration of the lease. This involves significant capex from the landlord and, as such, these occupiers are driving the market in terms of rents. Prime sites benefiting from this specification in the core North West markets are now reaching prices of up to £100,000 per acre; a significant increase from three or four years ago when rents were generally 50% lower.

The market is much more sophisticated now than it was ten years ago. Landlords then viewed Open Storage as a 'stopgap', to bring in some income while a more valuable redevelopment could be brought forward. Due to the increased focus from investors who have mandates specifically targeting Open Storage land (possibly due to viability issues for warehouse developments), we are seeing better-quality sites coming to the market on a longer-term basis.

Unlocking investment potential

In the past, major investors generally overlooked this asset class, with most sites owned by owner-occupiers or private landlords who often did not prioritise developing and improving site quality. However, given the supply shortage in the Open Storage market, coupled with the growing number of new occupiers, investors are beginning to recognise the potential for returns through the trajectory of rental growth.

Traditionally lacking in institutional investment, the market is now evolving with the entry of new players and investment managers set up specifically targeting the sector. Among the players pursuing Open Storage opportunities are Marchmont, NW1, Blackstone, ICG, Moorfield, and Roebuck. Many of these investors aim to build large-scale portfolios across the UK and Europe.

> "The scarcity of available sites, particularly around Greater London, means that investor requirements can be broad."

Marchmont, which has formed a joint venture (JV) with NW1 Partners, has a £250 million target for an Open Storage platform in the UK and has acquired several sites across London and the South East. Earlier this year, Marchmont IM acquired a 10-acre site at Alchemy Business Park in Knowsley for £7 million. The site is primarily leased to Amazon for fleet storage and charging. Last year, NW1 Partners announced plans to allocate £1.5 billion to strategies focusing on Open Storage across Europe and the US and have raised £100 million of equity to build a £200 million UK portfolio.

In October 2023, Almcor and their JV partner Cerberus Capital Management acquired two industrial parks with low building site coverage in Preston and Melton Mowbray for a combined £50 million. More recently (March 2024), the JV deployed £20 million on a 30-acre multi-let industrial and Open Storage site at Bridgwater, South West England. The transactions are part of their ambition to build an Open Storage portfolio north of £1 billion across Europe within the next three years.

US private equity firm Centerbridge Partners has also partnered with Modal, a new operating business, to develop one of Europe's largest pure-play Open Storage platforms. Modal's exclusive focus is on acquiring and managing Open Storage sites.

Investors are targeting income-producing Industrial Open Storage assets with strong potential for returns through active asset management and those that can be repurposed into institutional-grade Open Storage assets. They focus on strategically located sites around key UK cities and key logistics nodes, as well as those with a steady income and a strong tenant base, to minimise void risk. This includes sites that are mission-critical to supply chains, benefiting from the same demand drivers as traditional industrial and logistics real estate,

as well as sites for vehicle parking, containers, trailers, construction materials, machinery, and other goods.

The fragmented nature of the sector, characterised by its seller base of private landlords and owner occupiers, combined with generally smaller lot sizes, poses challenges to gaining scale quickly. Sites are often part of developers' land banks for repurposing, making this stock unavailable for sale. Additionally, although construction costs associated with Open Storage sites are lower than for prime urban warehouses, making them less capital-intensive assets, investors still face significant expenses related to developing these sites, including the high cost of laying concrete and installing electrical infrastructure.

The scarcity of available sites, particularly around Greater London, means that investor requirements can be broad. Investors need to be flexible and consider a wider range of site characteristics and locations. This could include varying site sizes and layouts, and a willingness to redevelop. Investors can acquire sites with longer-term plans for redevelopment, with the additional advantage of continuing to generate income from the asset during the planning phase for future redevelopment projects.

> "Investors are targeting income-producing Industrial Open Storage assets with strong potential for returns through active asset management and those that can be repurposed into institutional-grade Open Storage assets."

MARKET VIEW

James Clark
Partner, Logistics & Industrial Capital Markets

Over the past 18 months, there has been a significant uptick in the number of investors looking to deploy capital into the Open Storage sector. The weight of capital targeting Open Storage is largely from private equity and institutional investors who are attracted to the dynamics of the occupier market, the lower capital and operational expenditure required, the potential for higher returns, and the long-term development opportunities that some sites may offer. Unlike traditional warehousing, ownership in the sector is still highly fragmented, thus presenting an opportunity for investors to drive performance of assets that have historically been undermanaged.

Open Storage can produce higher returns than available with traditional warehousing and offer a more attractive yield on cost. This is driven mainly by a combination of lower capex requirements in terms of initial outlay and ongoing maintenance, minimal MEES requirements, and empty rates relief on void periods. These cost efficiencies can transfer into higher returns.

Demand in the sector has been strongest for sites that have services in place (most notably fencing, drainage, and access to power and water); level surfacing with concrete is preferable, however, lower grade surfacing is acceptable, albeit is reflected in lower achievable rents; and most importantly, unrestricted B2 / B8 planning or a clear pathway to regularise planning by way of a Certification of Lawful Existing Use or Development (CLUED).

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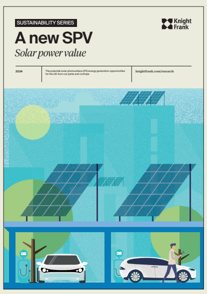

Solar power value – 2024

Future Gazing 2024

INDUSTRIAL OPEN STORAGE

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