

Briefing Note

Our ref 60562/02/CGJ/LBa
Date 3 November 2023
To Crawley Borough Council
From Lichfields

Subject **Crawley Local Plan 2024-2040: Market Signals Assessment for Industrial and Warehousing Needs**

1.0 Introduction

- 1.1 Lichfields has been commissioned by Crawley Borough Council (CBC) to examine latest market signals intelligence for industrial and warehousing space to provide supplementary evidence on the employment land required over the new plan period, in line with PPG paragraphs 2a-026-20190220 and 2a-027-20190220.
- 1.2 This briefing note sets out our approach to this market signals analysis and the key outputs in terms of considering future industrial and warehousing floorspace and land requirements in the Borough.

2.0 Evidence Base and Guidance

- 2.1 The economic evidence base for the Crawley Local Plan 2024-2040 comprises the 2020 Economic Growth Assessment (EGA) prepared for the Northern West Sussex area (comprising the local authority areas of Crawley, Horsham and Mid Sussex) and supplementary updates for Crawley Borough, most recently published in January 2023¹.
- 2.2 These studies all considered market signals evidence to some degree, including through consideration of a ‘past take-up’ growth scenario and qualitative evidence gathered through consultation with key representatives from the local and sub-regional commercial property market. For example, paragraph 2.48 of the 2023 EGA Supplementary Update for Crawley notes that:
- “Past take up rates (scenario 2) provide some basis to plan for slightly higher industrial land requirements. This would be consistent with the market analysis contained in the 2020 EGA that pointed to strong growth being experienced in the wider industrial and logistics market, and less so in the case of offices.”*
- 2.3 The EGA and its updates have been prepared on the basis of the methodologies set out within the Planning Practice Guidance (PPG)² which defines a number of approaches to assessing ‘market signals’:

¹ Northern West Sussex Economic Growth Assessment (EGA), Supplementary Update for Crawley, January 2023

² Paragraph: 027 Reference ID: 2a-027-20190220

How can market signals be used to forecast future need?

Strategic policy making authorities will need to develop an idea of future needs based on a range of data which is current and robust, such as:

- sectoral and employment forecasts and projections which take account of likely changes in skills needed (labour demand)
- demographically derived assessments of current and future local labour supply (labour supply techniques)
- analysis based on the past take-up of employment land and property and/or future property market requirements
- consultation with relevant organisations, studies of business trends, an understanding of innovative and changing business models, particularly those which make use of online platforms to respond to consumer demand and monitoring of business, economic and employment statistics.

Authorities will need to take account of longer term economic cycles in assessing this data, and consider and plan for the implications of alternative economic scenarios.

Paragraph: 027 Reference ID: 2a-027-20190220

Revision date: 20 02 2019

2.4

Accordingly, these approaches are widely applied for the purposes of preparing employment land needs assessments and related reviews. Similarly, in respect of the further guidance for assessing needs for logistics, the PPG also cites use of economic forecasts, take-up rates and anticipated changes in population/housing stock:

How can authorities assess need and allocate space for logistics?

The logistics industry plays a critical role in enabling an efficient, sustainable and effective supply of goods for consumers and businesses, as well as contributing to local employment opportunities, and has distinct locational requirements that need to be considered in formulating planning policies (separately from those relating to general industrial land).

Strategic facilities serving national or regional markets are likely to require significant amounts of land, good access to strategic transport networks, sufficient power capacity and access to appropriately skilled local labour. Where a need for such facilities may exist, strategic policy-making authorities should collaborate with other authorities, infrastructure providers and other interests to identify the scale of need across the relevant market areas. This can be informed by:

- engagement with logistics developers and occupiers to understand the changing nature of requirements in terms of the type, size and location of facilities, including the impact of new and emerging technologies;
- analysis of market signals, including trends in take up and the availability of logistics land and floorspace across the relevant market geographies;
- analysis of economic forecasts to identify potential changes in demand and anticipated growth in sectors likely to occupy logistics facilities, or which require support from the sector; and
- engagement with Local Enterprise Partnerships and review of their plans and strategies, including economic priorities within Local Industrial Strategies.

Strategic policy-making authorities will then need to consider the most appropriate locations for meeting these identified needs (whether through the expansion of existing sites or development of new ones).

Authorities will also need to assess the extent to which land and policy support is required for other forms of logistics requirements, including the needs of SMEs and of 'last mile' facilities serving local markets. A range of up-to-date evidence may have to be considered in establishing the appropriate amount, type and location of provision, including market signals, anticipated changes in the local population and the housing stock as well as the local business base and infrastructure availability.

Paragraph: 031 Reference ID: 2a-031-20190722

Revision date: 22 07 2019

Other approaches

- 2.5 The use of other approaches alongside those set out in the PPG can be useful as supplementary evidence that provide alternative views of future needs but do not – in themselves – necessarily substitute the use of the approaches that are described in the PPG.
- 2.6 In the absence of further detailed national guidance on how market signals should be used and applied for the purposes of forecasting industrial and warehousing needs specifically, the approach set out below has had regard to recent research including a report by the British Property Federation (BPF) authored by Savills in 2022³ which sets out some broad principles. It should be noted that while this is an approach developed by stakeholders within the sector, it is not specifically defined within the PPG. This includes the use of ‘net absorption’⁴ data as a measure of demand, the need to consider ‘suppressed demand’ (i.e. where lack of available supply has had the effect of suppressing overall demand as it could not all be accommodated), and the rationale for considering market signals beyond the local scale recognising the geographies across which industrial and logistics markets typically operate.
- 2.7 The market signals analysis summarised below has been applied to the Northern West Sussex functional economic market area (FEMA), which has long been recognised in planning and policy terms as the FEMA within which Crawley Borough operates.
- 2.8 It is important to note that, as with all forecasting techniques, this approach can have some limitations depending on the local context where it is being applied, for example as expressed within the recent Inspectors’ Report for the Warrington Local Plan:
- “We appreciate that the net absorption rate (the amount of net floorspace occupied over a period of time) provides a useful indicator of demand. However, it includes relocations to and from second hand space and is therefore likely to over-estimate the demand for new build accommodation which is related to the need for additional land.*
- Attempting to quantify the scale of suppressed demand is a complex process involving a number of assumptions. For example, the relationship between rental growth and availability rates is not necessarily absolute. Factors other than the availability rate may have affected rent levels. There may also be a range of factors affecting the ability of a particular business to locate or relocate, other than the availability of premises.”⁵*
- 2.9 Accordingly, it is important that this further market signals assessment detailed below is interpreted as a cross-check alongside the wider quantitative and qualitative evidence set out in the EGA and its latest update.

³ [BPF and Savills, Levelling Up - The Logic of Logistics, January 2022](#)

⁴ Net absorption is a measure of market demand which compares occupied space (move-ins) versus vacated space (move-outs)

⁵ Warrington Borough Council, Warrington Local Plan, Inspectors’ Report October 2023, paras 88-89.

<https://www.warrington.gov.uk/sites/default/files/2023-10/Warrington%20Local%20Plan%20-%20Inspectors%27%20Report%20-%20October%202023.pdf>

3.0 Market Signals Assessment

Step 1: Net Absorption of Industrial and Warehousing Space

- 3.1 CoStar’s annual net absorption data measures the floorspace occupied minus floorspace vacated over a specific period based on lease deals. This measure is considered appropriate as one of a number of potential data points to assess the market demand for industrial and warehousing floorspace.
- 3.2 Such an approach aligns with the PPG, particularly paragraph 031⁶ which states, “*analysis of market signals, including trends in take up and the availability of logistics land and floorspace across the relevant market geographies*”. While the PPG refers to consideration of market signals for “*logistics*” as being distinct from “*general industrial land*”, given the market inter-relationship between industrial and distribution uses, and in view of Crawley’s role as a prime industrial location within Northern West Sussex more generally⁷, this market signals assessment considers both uses. It is also consistent with the approach set out in the BPF/Savills report noted above which combines both warehousing and industrial demand.
- 3.3 Accordingly, average annual net absorption rates for industrial and distribution space across the Northern West Sussex FEMA over the last 10 years (2013-2022) have been projected forward over the new Crawley Local Plan period, assuming these trends in net absorption were to continue in the future. A proportion of this FEMA-wide figure is then apportioned to Crawley based on the Borough’s market share which is measured through the following indicators:
- 1 Average net absorption over the past 10 years;
 - 2 Average net deliveries over the past 10 years; and
 - 3 Industry and warehousing inventory (as at 2022).
- 3.4 Taking an average across these indicators suggests that around 50% of future demand across the FEMA could arise in Crawley (i.e. if it were assumed that Crawley’s future market share reflects patterns in the recent past).

Step 2: Latent or ‘Suppressed’ Demand

- 3.5 A vacancy rate of around 8% is typically considered to represent a ‘normal’ market equilibrium whereby supply and demand are broadly in balance and rents are more stable, but there is also sufficient availability and choice for the market to function and churn⁸.
- 3.6 While the position varies from year-to-year, CoStar data indicates that the vacancy rate for industrial and distribution space has largely fallen below 8% within the Northern West Sussex FEMA for much of the last 10-year (2013-2022) period. This means that the FEMA’s industrial and distribution/warehousing market has been supply-constrained over the past

⁶ PPG reference: 2a-031-20190722

⁷ See, for example, commentary at 2020 EGA paras 7.12-7.15

⁸ Benchmark used in the GLA Land for Industry and Transport Supplementary Guidance and London Plan (2021)

decade, which in turn will have given rise to suppressed or 'latent demand' as not all occupiers have been able to find space to meet their needs during this period.

- 3.7 In order to balance for the 'backlog' of latent demand, a further allowance is added to the outputs from Step 1. This uses CoStar data on vacancy/availability rates for industrial and distribution space across the FEMA over the last 10 years and represents the quantum of floorspace necessary to achieve 8.0% availability for any year (over the last 10) where industrial/distribution availability has been below the benchmark market equilibrium rate of 8%.
- 3.8 FEMA-wide figures are then apportioned to Crawley Borough using the same approach described above.

Step 3: Market Signals Requirement

- 3.9 Combining these two steps results in a total 'market signals' future needs estimate for industrial and distribution space in Crawley as shown in Table 1 below, covering the 2023-40 period.⁹

Table 1 Market Signals Requirement for Crawley Borough, 2023-2040

Step 1: Net Absorption	Step 2: Latent Demand	Total Requirement	
		Sq.m	Ha
132,336	62,392	194,728	48.7

Source: Lichfields analysis

Note: Land area (ha) assumes 0.4 plot ratio

Comparison with 2023 EGA Supplementary Update for Crawley

- 3.10 The implied industrial and warehousing land requirements would be within the range identified within the EGA Update (which set out a range of 22.8 – 60.2ha over the 2023-2040 period).¹⁰

⁹ This study period is consistent with the 2023 Supplementary EGA Update for Crawley.

¹⁰ It should be noted that market signals requirements estimated and presented in this briefing note relate to industrial and distribution uses only, while the EGA evidence also considers office uses alongside industrial and distribution. The requirements for offices are not included or reported in this note.