

# Is the Logistics sector delivering on ESG?



2023

Exploring environmental, social and governance initiatives in the logistics sector

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# Rising demand for sustainable and well-specified warehouses

The real estate sector is currently experiencing an ESG wake-up call. Recognising its contribution of around a third of total energy consumption and just shy of 40% of CO2 emissions, governments are introducing ESG-focused legislation and strategies to ensure corporations and the real estate sector take action. This is putting increased pressure on the logistics industry to deliver efficient and sustainable real estate. As such, environmental, social and governance initiatives within the sector have accelerated.

In the last three years, the logistics industry has experienced a surge in demand for real estate, largely driven by the onset of the Covid-19 pandemic and subsequent rapid expansion of online retailing. The growth in online retail has led to

operators needing to scale up capacity and has resulted in record occupancy levels, declining vacancy rates, and limited supply. Occupiers are increasingly seeking high-quality, modern facilities to help them achieve their ESG goals, reduce running costs, and enhance operational efficiencies through automation and technology. This rise in demand is driving the need for new, sustainable, and well-specified warehouses, creating a significant opportunity for development within the sector.

To gain insight into how the industry addresses these challenges, we've taken a closer look at the recent ESG efforts of the top 10 third-party logistics (3PL) companies and leading industrial real estate developers in the UK.

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**“In the last three years, the logistics industry has experienced a surge in demand for real estate, largely driven by the onset of the Covid-19 pandemic and subsequent rapid expansion of online retailing”**

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# Energy efficiency challenges for warehouses

With the Minimum Energy Efficiency Standards set to tighten by 2030, we analysed Energy Performance Certificate data to see how warehouses in England and Wales perform

## WAREHOUSES FACE STRICT ENERGY EFFICIENCY STANDARDS

To help achieve the UK government’s goal of net zero carbon by 2050, Minimum Energy Efficiency Standards (MEES) have been introduced for commercial buildings in England and Wales. These standards set a minimum level of energy efficiency that must be met before a property can be let. As of April 1, 2023, all new and existing leases for commercial properties in England and Wales must meet at least an Energy Performance Certificate (EPC) grade E, with a planned increase to grade B by 2030. To help transition, an interim measure of achieving an EPC grade C by 2027 has been proposed. Warehouse landlords must upgrade their properties to meet the new

standards or risk being unable to lease their properties, unless eligible for an exemption. It is important to note that owner-occupied properties are exempt from these requirements, accounting for c.14% of warehouse stock over 50,000 sq ft.

As tenant demands and regulatory requirements become increasingly stringent, many properties will no longer meet the standards expected by modern occupiers or institutional investors/landlords. We analysed the latest EPC data to see how warehouses within England and Wales are performing in respect to these impending regulations. Our analysis estimates that currently around 18% of warehouse space (units exceeding 50,000 sq ft), equivalent to c.138 million sq ft, will fail to meet

the minimum EPC grade C by 2027. This number is set to triple by 2030, with around 404 million sq ft of warehouse space falling short of the proposed grade B EPC requirement. This presents a significant challenge for the industry as it strives towards greater sustainability.

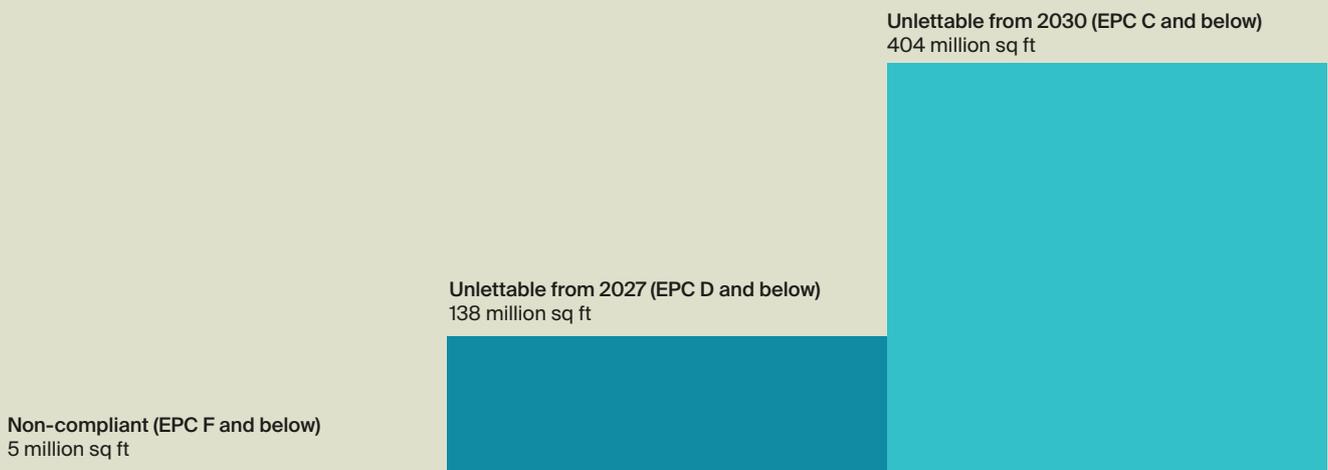
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**“Around 18% of current warehouse space, will fail to meet the minimum EPC grade C by 2027”**

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**Fig 1: Rising MEES leave millions of square feet of warehouse space at risk of being unlettable**

Leased warehouse space above 50,000 sq ft across England and Wales falling short of current and proposed regulatory requirements



Source: Knight Frank Research, DLUHC

# 48%

of EPC-certified warehouses in England and Wales meet the proposed minimum grade B

## RISK HOTSPOTS AND OPPORTUNITIES

Across England and Wales, 48% of EPC-certified warehouses currently meet the proposed minimum grade B (units over 50,000 sq ft). However, there are significant regional disparities in energy efficiency. With 61% of EPC certified warehouses rated B or above, the East Midlands region takes the lead. Our analysis highlights risk hotspots in Wales, the North East and North West regions, and Yorkshire and The Humber. In Wales, only 24% of warehouses over 50,000 sq ft meet the EPC B grade minimum, with marginally higher rates in the North East (33%), North West (39%), and

Yorkshire and The Humber (40%). This highlights the need to address the ageing warehouse stock in these areas. In addition, owner occupancy rates, which are often associated with older and less efficient buildings, are higher in these regions, at approximately 40% and 30% in Wales and the North East, respectively (units over 50,000 sq ft). Given that owner-occupied buildings are largely exempt from these requirements, underperforming stock in these locations may be even higher than the data suggests.

## RATE OF PROGRESS

We analysed the current rate of progress for certified UK warehouses in meeting the proposed MEES EPC rating of B over the last three years. For all buildings to reach the target by 2030, the progress rate must be at least 10% of stock per annum (units over 50,000 sq ft). Our analysis shows that the current rate falls short at just 6%, yet significant regional variations are evident.

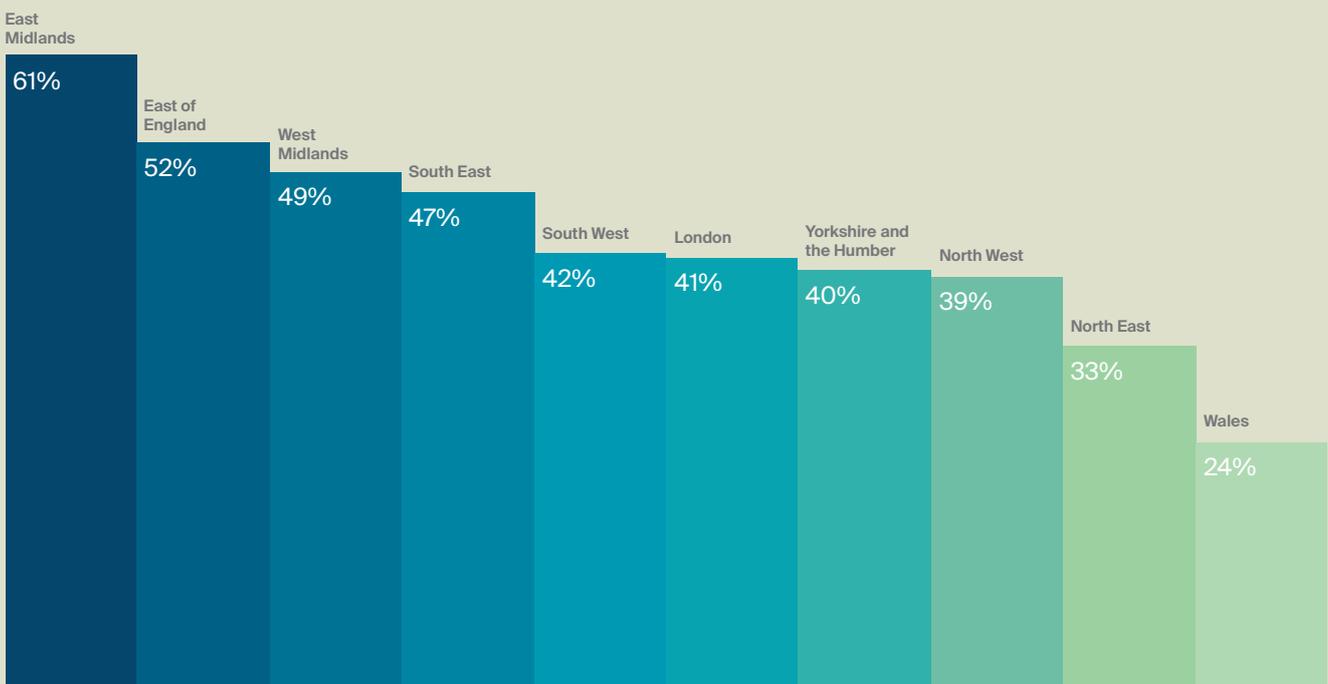
Based on the current trajectory, the North East and the East of England regions have the potential to achieve a minimum EPC B grade before 2030. However, it is reasonable to assume that not all buildings in these regions, particularly those with older E and F-grade ratings, will be retrofitted due to both tenure and the significant capital expenses associated. This is particularly true given recent rises in construction and borrowing costs.

The East Midlands is a highly tenanted market and is leading the way on energy performance. Despite this, the historical progress rate for the region stands at only 6% per annum, indicating that if this trajectory

**“With 61% of EPC certified warehouses rated B or above, the East Midlands region takes the lead”**

**Fig 2: East Midlands leads on energy performance**

% of warehouse floor space over 50,000 sq ft rated EPC B or above in England and Wales by regions



Source: Knight Frank Research, DLUHC

continues, the remaining warehouse stock will not achieve a minimum EPC B grade until 2031. This illustrates that even the most efficient region, in terms of energy usage, may fall short of the UK government's targets.

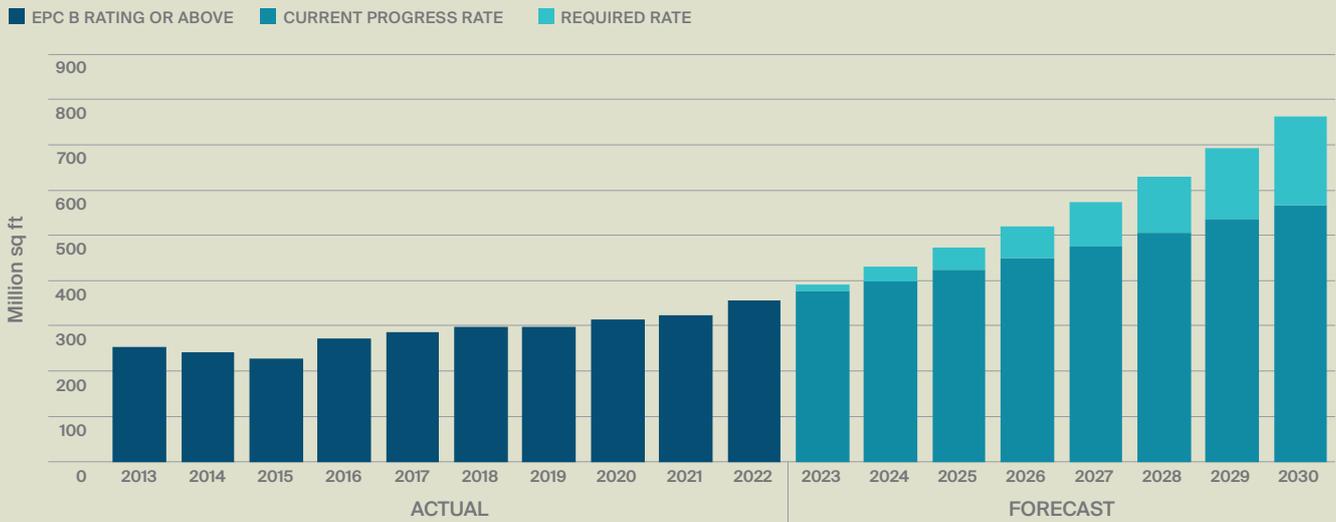
The West Midlands, South East, London, and South West regions are progressing notably slower. Based

on current trends, it would take until 2057, 2047, 2047, and 2044, respectively, for these regions to upgrade their entire existing building stock to the minimum EPC grade B. Wales lags furthest behind, needing an additional 38 years to catch up to the same level of energy efficiency as the East Midlands.

“The North East and the East of England regions have the potential to achieve a minimum EPC B grade before 2030”

**Fig 3: Progress rates must double to achieve the proposed 2030 deadline**

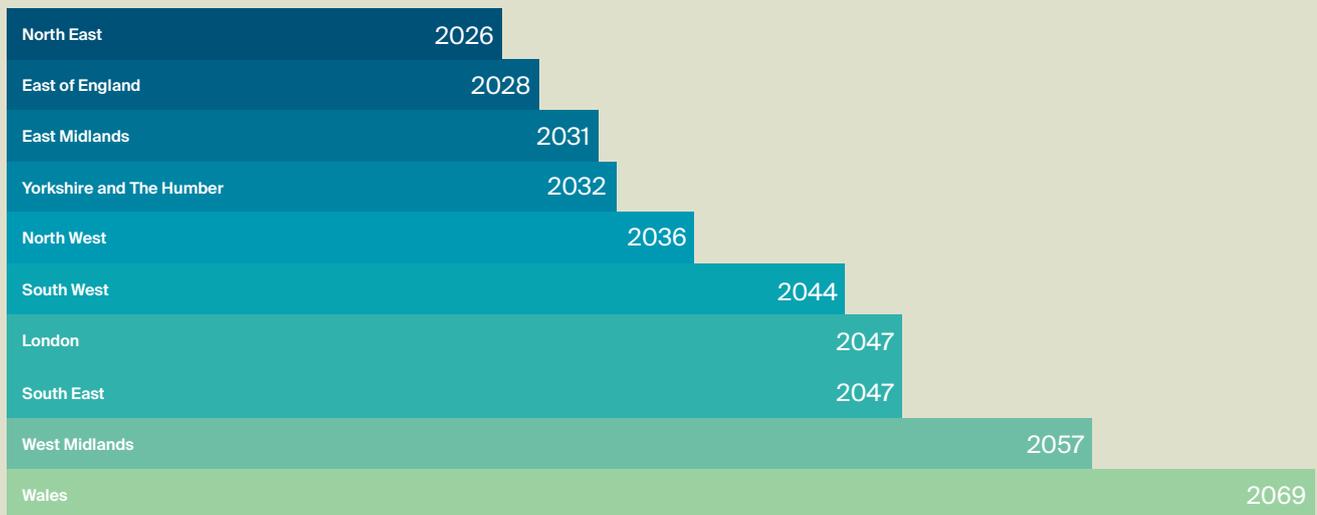
The estimated floorspace of leased warehouses over 50,000 sq ft currently rated EPC B or above, as well as the forecast based on the current retrofit rate and the rate required to meet the proposed 2030 deadline



Source: Knight Frank Research, DLUHC

**Fig 4. Regional variations**

Based on the 3-year average rate of improvement in each region, when can we expect the current leased warehouse stock over 50,000 sq ft to achieve a minimum EPC grade B?



Source: Knight Frank Research, DLUHC

# BREEAM certification gains momentum

Logistics providers make BREEAM certification a non-negotiable requirement for warehouse facilities, and developers seek to align with sustainability goals

While EPCs have been made mandatory for the logistics sector, many 3PLs are voluntarily opting for additional sustainability certifications. Among these voluntary schemes, the Building Research Establishment Environmental Assessment Method (BREEAM) is one of the most widely adopted in the UK. Over the last decade, the number of industrial buildings with BREEAM New Construction certifications has been consistently growing. Some 1,411 buildings have been certified, with the majority (62%) receiving a 'Very Good' rating. While the BREEAM In-Use certification has not yet been

widely adopted, there have been 55 certifications issued in the last two years.

## DEVELOPERS EMBRACE BREEAM CERTIFICATION TO MEET MARKET DEMAND

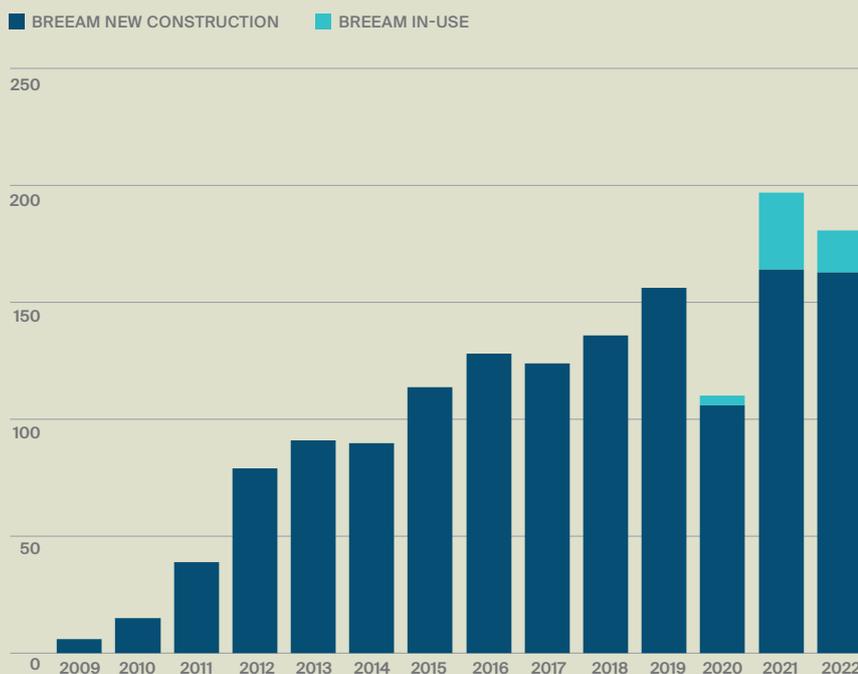
Many logistics companies and developers have stated a commitment to achieve net zero carbon emissions. Among the top 10 3PL companies and logistics developers analysed, 9 out of 10 3PLs, and half of the logistics developers, are committed to this objective. The commitment timelines of 3PLs are divided, with seven aiming to achieve net zero by 2050, while the remaining plan to do so by 2040. The

growing demand for sustainable and energy-efficient buildings pushes developers to incorporate sustainable design principles and embodied carbon considerations into their new builds.

In response to the sustainability objectives of leading 3PL companies, BREEAM certification has become a key consideration among developers. Developers now have a genuine appetite for creating "best-in-class" products by prioritising sustainable features in their new build projects. Most logistics developers have set BREEAM targets for their buildings, with the majority aiming to attain 'Excellent' or 'Very Good' ratings.

**Fig 5: BREEAM certifications on the rise**

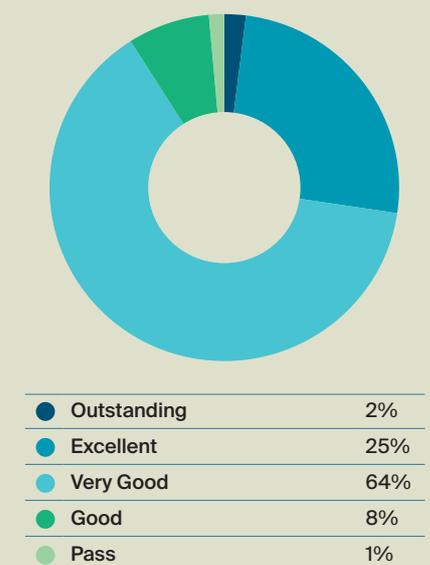
Number of BREEAM certifications issued for industrial properties by year, UK



Source: Knight Frank Research, BREEAM

**Fig 6: 'Very Good' or 'Excellent' a target**

% of BREEAM New Construction certifications for industrial and logistics properties, by rating classification, UK, 2023



Source: Knight Frank Research, BREEAM

# To retrofit or redevelop?

Existing warehouses are being retrofitted to enhance energy efficiency, while new developments prioritise sustainability and automation

## THE RISE OF DEMAND FOR LARGER, SPECIALISED FACILITIES

As the online market grows and matures, there is rising demand for large fulfilment centres that utilise automation and specialised warehouse management systems. This demand is driven by retailers outsourcing their online order fulfilment to 3PLs with the expertise to optimise order fulfilment, returns operations and enhance efficiencies. As a result, distribution firms have accounted for a significant proportion of leased industrial space in the UK over the past four years, particularly newly developed units between 100,000 and 400,000 sq ft.

Over the period 2019 to 2022, distribution firms accounted for 40% of all industrial space leased in the UK. While overall take up of units between 100,000 and 250,000 sq ft increased by 31% during the period, newly built units (including pre-let, pre-sold, built-to-suit and speculatively built units), occupied by distribution firms, experienced 68% growth. Similarly, take up by distribution firms rose 71% in newly developed units between 250,000 and 400,000 sq ft, compared to 33% growth in the overall market.

The market has experienced a gradual decline in the supply of new, very large units over 400,000 sq ft,

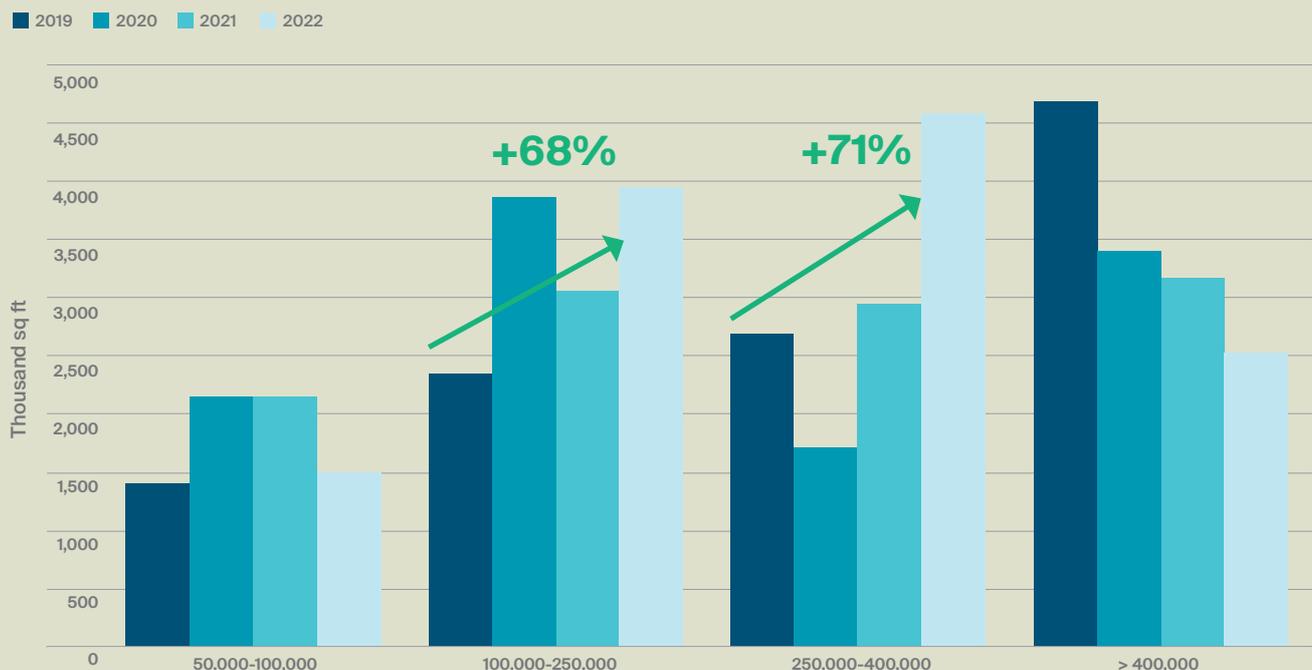
which has led to a slowdown in take up of units of this scale.

There has also been a rise in the number of larger, 100,000 sq ft or more, new-built units taken up by distribution occupiers. While the total number of new units occupied by a distribution firm between 2019 and 2022 increased by 46%, take up of new units over 100,000 sq ft rose by 70%. The largest increase was seen in units between 100,000-250,000 sq ft (87%) and 250,000-400,000 sq ft (75%).

With consumers and retailers increasingly looking at the environmental impact of their decisions, sustainability is also

**Fig 7: Rapid growth in demand for large, newly developed warehouses by distribution firms**

Take up of newly developed units by distribution firms, by size band, UK (sq ft)



Source: Knight Frank Research

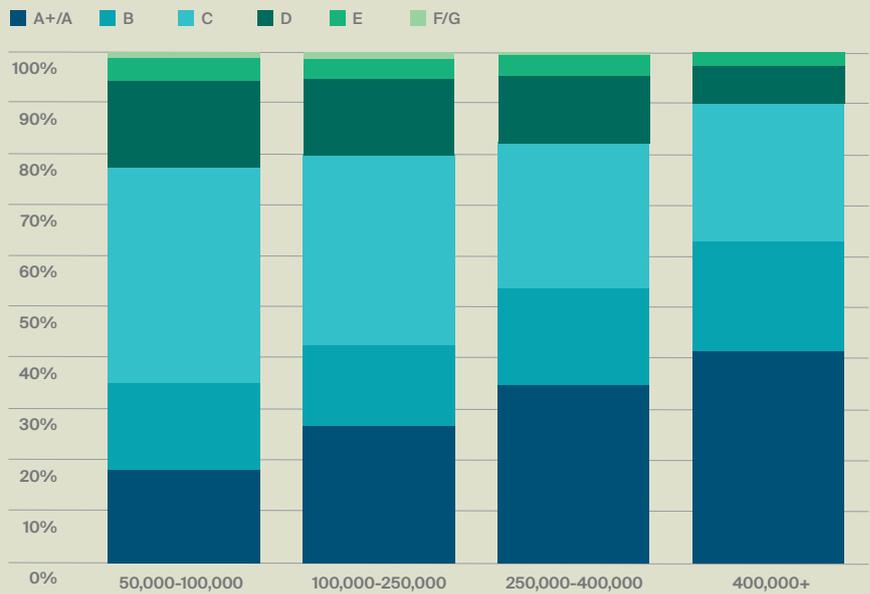
becoming critical for 3PLs and delivery partners' business models. 3PLs are competing to enhance their environmental credentials to secure new retailer contracts, resulting in a surge in demand for larger, more energy-efficient logistics facilities.

EPC ratings reveal a similar trend towards larger and more sustainable industrial spaces. Warehouses over 400,000 sq ft have a higher prevalence of A or B ratings, with 63% achieving such a rating. Conversely, smaller warehouses under 100,000 sq ft are less likely to achieve higher ratings, with only 35% achieving an A or B rating.

“Over the past five years, there has been a positive trend in warehouse owners taking measures to enhance their properties' energy performance”

**Fig 8: Larger warehouses tend to have higher EPC ratings**

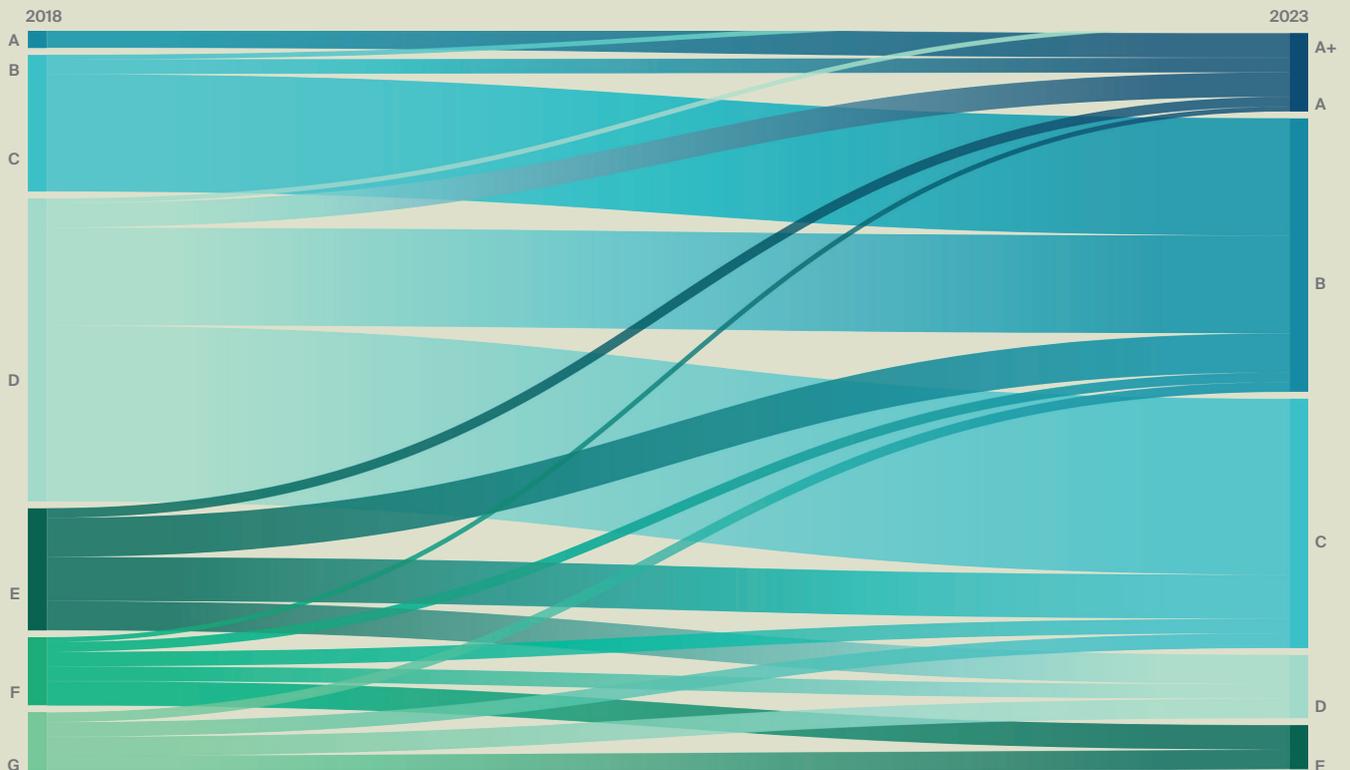
% of warehouse space by EPC rating and size band (sq ft)



Source: Knight Frank Research, DLUHC

**Fig 9: Promising trends in energy efficiency improvements**

The extent of movements in EPC ratings for warehouses over 50,000 sq ft, England and Wales, 2018-2023



Source: Knight Frank Research, DLUHC

# 35%

of warehouse owners who possess leased warehouses with EPC ratings have chosen to sell their properties instead of undertaking energy efficiency enhancements

### MITIGATING THE STRANDING RISK OF AGED STOCK

New warehouses must meet the latest sustainability standards, but addressing the existing stock, which makes up most of the warehouse space, is equally important. With 82% of warehouses in the UK built before 2000 and only 5% constructed in the last decade, many warehouses do not meet modern sustainability standards. Significant capital expenditure is required to retrofit these warehouses to improve their energy efficiency and mitigate the stranding risk.

Over the past five years, there has been a positive trend in

warehouse owners taking measures to enhance their properties' energy performance. According to EPC data, 6% of warehouses over 50,000 sq ft have experienced improvements in their EPC ratings during this period, with many buildings moving up by at least one rating. More than half (52%) of the warehouses that improved their rating achieved an EPC rating of B or higher. However, recent changes to the EPC methodology may have contributed to some improvements in ratings, even without energy efficiency upgrades.

Most improvements were from D to C or C to B ratings, with 24% and 16% of buildings improving, respectively. This trend highlights that warehouse owners are taking relatively small steps to enhance their properties' energy efficiency. Despite these promising developments, there is still significant scope for improvement, particularly in the lower ratings, EPC D and below, where 18% of warehouses remain.

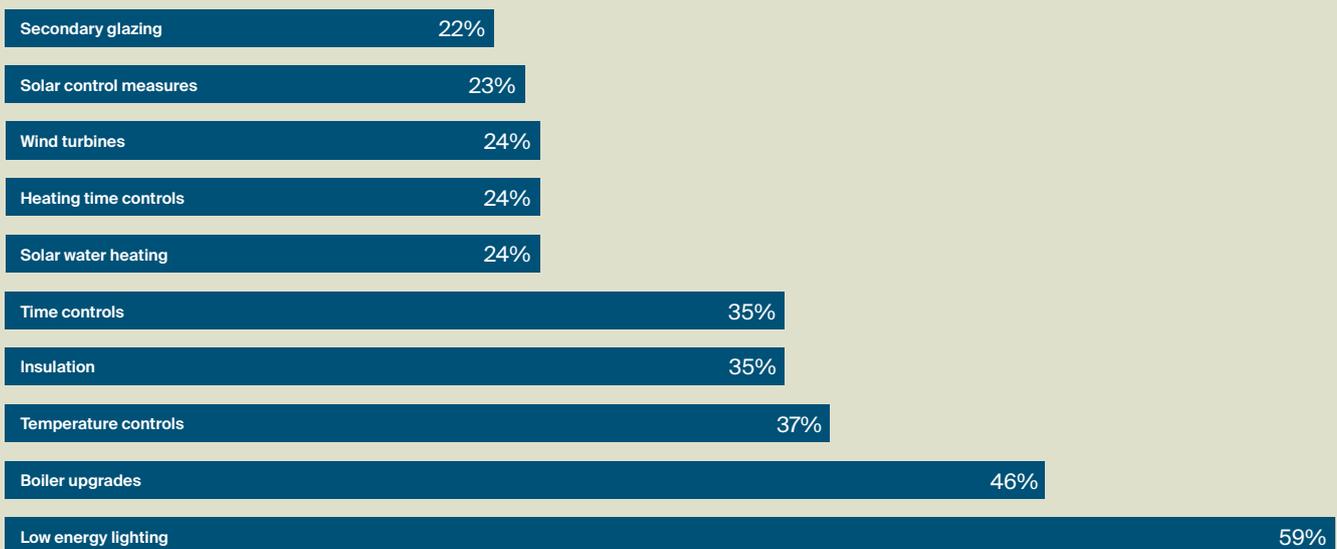
Not all warehouse owners are willing to make energy efficiency

improvements. Over the past five years, 35% of warehouse owners who possess leased warehouses with EPC ratings have chosen to sell their properties instead of undertaking energy efficiency enhancements. This could be attributed to the impending deadline set by the MEES.

Analysing EPCs pre- and post-improvement, it was evident that specific upgrades helped contribute to the overall increase in energy efficiency over the last five years. Lighting upgrades were the most common improvement, with 59% of the warehouses opting for this solution. Additionally, 46% of warehouses installed more efficient boilers to reduce energy consumption further. Upgrading temperature controls were another common solution, with 37% of warehouses taking this step, which helps to regulate the internal temperature of the warehouse, resulting in reduced energy wastage. Finally, improving insulation (35%), time controls (35%), and solar water heating (24%) were other notable upgrades observed.

**Fig 10: Low energy lighting most implemented improvement**

Top 10 EPC rating improvements for warehouses over 50,000 sq ft, England and Wales (%)



Source: Knight Frank Research, DLUHC

# Logistics warehouse goes solar

Harlow logistics warehouse goes solar, generating renewable energy and reducing carbon emissions while achieving cost savings

KNIGHT FRANK ENERGY AND NATURAL RESOURCES

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# 4,423

tonne reduction of CO<sub>2</sub> over the system's 25-year lifetime, equivalent to planting over 66,000 trees

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Tritax Big Box REIT, in partnership with Knight Frank's specialist Energy and Sustainability team, completed the installation of a 999.75-kilowatt

peak (kWp) rooftop solar plant on their logistics warehouse located at the Ash Industrial Estate, Flex Meadow, Harlow, in January 2022. The building, operated by Brakes as a depot and logistics centre for their wholesale food network, was expected to generate over 930 MWh of electricity per year, enough to power 321 households. In the first year it exceeded this with 979 MWh of electricity generated.

The project is expected to reduce carbon emissions significantly, with an estimated reduction of 4,423

tonnes of CO<sub>2</sub> over the system's 25-year lifetime, equivalent to planting over 66,000 trees.

The switch to solar energy will also help reduce the building's dependence on the grid, offsetting the total annual electricity use with its low-carbon supply at a significantly cheaper rate than grid-supplied power.

This project is a great example of how companies can take proactive steps towards sustainability and reduce their environmental impact while achieving cost savings. Tritax Big Box REIT and Knight Frank's partnership demonstrates how businesses can work together to reduce carbon emissions and improve energy efficiency.

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# A Planner's Perspective: Six ESG lessons from the redevelopment of Montagu Industrial Estate, Enfield

Nick Diment, a Partner in Knight Frank's Planning Team, shared valuable insights on the role ESG considerations played in securing planning consent for the redevelopment project

A 12-hectare site in Enfield, London, will deliver up to 40,000 sq m of manufacturing and storage/distribution space. It also includes relocating an 8,000 sq m waste facility and a concrete batching plant. Although ESG is not explicitly included in planning policy, a policy direction is to promote environmentally sustainable and socially beneficial development. Here are the top six takeaways for real estate developers and investors.

## 1.

### **Redevelopment can deliver broader opportunities for ESG benefits than retrofitting.**

By choosing to redevelop the site rather than retrofit it, the project team was able to optimise site layout, create flexible spaces, and deliver sustainable and energy-efficient buildings (at least BREEAM New Construction 'Excellent'). This approach allowed for a more comprehensive and integrated approach to ESG considerations.

## 2.

### **Circular economy principles can maximise the value of existing resources and reduce waste.**

By exploring opportunities for material reuse and waste reduction, the project minimises its environmental impact and creates more sustainable

development. This approach is increasingly being adopted by developers and investors looking to reduce their carbon footprint and improve resource efficiency.

## 3.

### **Whole life carbon assessments can capture the full environmental impact of a development.**

By considering both operational and embodied emissions, the project team could quantify the full environmental impact of the development over its entire life cycle. This approach can help developers and investors identify opportunities to reduce emissions and improve the sustainability of their projects.

## 4.

### **Section 106 agreements can secure local community benefits such as apprenticeships and supply chain support.**

By incorporating community benefits into the planning agreement, the project team could secure the use of local labour during construction, provide apprenticeships and supported internships, and prioritise local goods and materials during construction. This approach can help developers and investors build stronger relationships with local communities and improve the social impact of their projects.

## 5.

### **Enhancing the public realm can improve employee wellbeing and community engagement.**

By improving pedestrian and cycle links, enhancing urban greening, and supporting active travel, the project team created a more attractive and welcoming development that benefits residents, visitors, and employees. This approach can improve employee wellbeing and satisfaction and enhance community engagement and interaction.

## 6.

### **Designing out crime can improve safety and security for all stakeholders.**

By working with Secure by Design, the project team reduced opportunities for anti-social behaviour and crime through good natural surveillance, lighting, and legible pedestrian routes. This approach can help improve safety and security for all stakeholders and enhance the overall quality of the development.

By addressing these ESG-related concerns, the Montagu Industrial Estate redevelopment project provides an excellent example of how ESG principles can be implemented in real-world development scenarios.

# Q&A with Wincanton: Navigating the ESG landscape

In a recent interview with Knight Frank, Steve Tainton, Head of Sustainability at Wincanton, discussed the importance of ESG and why the logistics industry needs to embrace change. The conversation with Knight Frank experts Deirdre O'Reilly (Industrial & Logistics Research) and Nicola Ryan (ESG Research) highlighted the challenges logistics providers face in navigating the ESG landscape and meeting the growing expectations of customers and stakeholders.

**Q: What are Wincanton's key ESG targets, and how have these evolved?**

**ST:** At Wincanton, we've set a long-term goal of achieving net zero by 2040 and have established interim targets. We aim to achieve carbon neutrality for all non-transport businesses by 2025, transition all our company cars to electric by 2026, double recycling rates from residual waste by 2025, and eliminate difficult-to-recycle packaging by 2030.

As we work towards achieving our sustainability objectives, we understand that transport is responsible for over 83% of our carbon emissions. To address this, we're focusing on electrifying our fleet, and we recognise the crucial role that warehouses and logistics real estate play in enabling this transition. We know that building on-site charging infrastructure around distribution parks will be key to powering electric vehicles and reducing our carbon footprint.

**Q: How have your warehouse requirements changed in the past year to align with your ESG goals, and are new warehouse builds or retrofits from developers meeting your targets and those of your customers?**

**ST:** To meet our ESG goals, we're ensuring new warehouses have enough power capacity for electrification and solar panels. We're reserving power for electric vehicles, implementing flexible charging in car parks, and exploring automation to increase productivity. Choosing optimal locations is key, as shorter distribution routes minimise

energy use. We are also considering the retrofitting necessary for older warehouse stock to improve energy efficiency. When developers think about a new build, they must consider a roof that will take solar at the design and build stage.

**Q: How do manufacturers and retailers that you partner with (or potential companies you may work with in the future) impact your requirements when searching for new warehouses?**

**ST:** As we bid on public sector tenders, we must consider the social value and response to climate change. ESG can account for up to 20% of the weighting. Many of our customers aim to reach net zero by 2040 or earlier, and failing to meet their targets means losing contracts. Customers won't subcontract with logistics providers who can't deliver their environmental goals; our emissions are their emissions.

**Q: Are your customers' requirements specific to building performance?**

**ST:** This is an interesting one because it feels like the EPC regulations are not quite aligned with the actual need of the customer base. Wincanton has specific requirements for building performance that focus on the electrification of heating and forklift trucks. We are moving towards eliminating LPG forklifts and gas heating and already purchase green electricity. We do not have a specific requirement for the EPC rating of buildings as the building is typically not temperature controlled. Our focus

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**“As we work towards achieving our sustainability objectives, we understand that transport is responsible for over 83% of our carbon emissions”**

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on building performance is more on the energy use in the building rather than the insulative quality of the building or the air tightness.

**Q: What aspects of these requirements are most challenging to fulfil?**

**ST:** One of the most challenging aspects is the availability of solar panels on buildings, which we require to charge vehicles and store electricity. This requires landlords to understand the potential for retrofitting to meet logistics companies' energy and sustainability needs. Another challenge includes the age of the warehouse stock; as the UK warehouse stock gets older, retrofitting becomes necessary for sustainability, which is challenging due to the added costs and red tape involved. Despite this, we continue to prioritise electrification in our warehouse search as it aligns with our ESG goals and helps control costs and improve profitability.

**What is your business' current process for collecting supply chain-related emissions data?**

**ST:** We track our energy use and distance travelled using data collection,

telematics, and planning systems on almost all our vehicles. We expect similar data from our suppliers, like waste service providers and differentiate between different energy sources. We typically have data available for every site we operate in and every vehicle we operate. We can then report this data to landlords, customers, and other stakeholders.

**What are the key challenges when assessing emissions?**

**ST:** Our biggest challenge is assessing scope three emissions, which involves estimating emissions from subcontractors for transport services. Given that Wincanton is essentially a piece of someone else’s supply chain, we’re often considered a scope three emission to our customers. Our reporting system allows us to project data for our stakeholders. As transport is our biggest emission, if we think it’s not cost or carbon effective to make a particular journey, we subcontract some journeys and estimate subcontractors’ emissions based on transport models.

**How is Wincanton ensuring that it treats ESG as a strategic business imperative? i.e., how is the business embedding it into their company culture and operating model?**

**ST:** As part of our ESG strategy, we have set our commitments and targets in our annual report. Our Executive Management Team and Board ensure that Wincanton’s vision is realised through health and safety, wellbeing, training, development programmes, and diversity and inclusion strategies. Engagement with our colleagues remains a critical ingredient to our success, and we run schemes to promote their safety and enhance career development. This year, we will run an environment week for all colleagues to increase engagement with the business. We measure the E and S easily, but targets are less tangible for governance. We have built on our Code of Conduct, strengthened our awareness programmes, and established an ESG Committee to improve our governance framework.

**How are you attracting, developing, and retaining the talent and skills needed to drive your social strategy and outcomes? (This could be for all levels, e.g. in leadership).**

**ST:** Wincanton is focused on developing and retaining the talent and skills needed to drive its social strategy and outcomes through internal development and education. Diversity and inclusion programmes have been implemented to increase representation and create a more inclusive workplace.

**What role do your real estate requirements play in this?**

**ST:** Wincanton is making a concerted effort to create a more accommodating, comfortable, and inclusive environment for all employees, focusing on disability confidence. Our buildings and facilities have features like lifts, ramps, and accessible restrooms to ensure accessibility for all. This promotes wellbeing and inclusivity while enhancing the overall quality of our buildings and warehouses, which helps us attract new talent and a more diverse workforce.

**What aspects of the market are most challenging to meet your ESG targets, e.g. long-haul, last mile, cold storage, etc?**

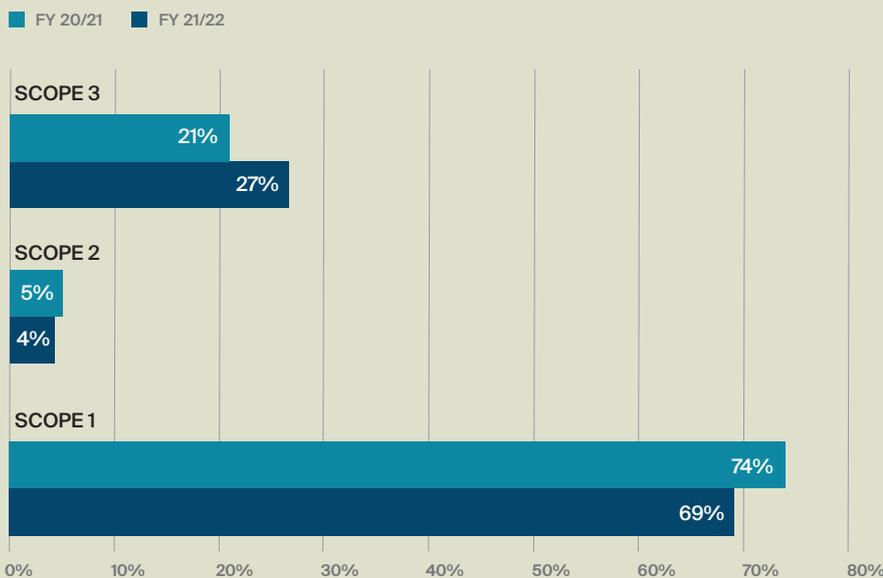
**ST:** Meeting our ESG targets has been challenging due to technology and infrastructure limitations. For example, we are unable to decarbonise our long-haul deliveries as no electric vehicles or infrastructure are available for that purpose. Our business specialises in big item delivery, which requires larger vehicles. Unfortunately, the technology for these vehicles is not yet available and is not expected to be until the second half of 2023.

**Finally, what are the main future trends in the role that 3PLs will play in ESG?**

**ST:** In the future, decarbonising road freight will be crucial for 3PLs regarding ESG. As a sector, if we achieve this and have the best net zero carbon story in helping the UK meet its emissions targets, and have a strong ESG and social programme, it can provide a competitive advantage. This includes being the best place to work and making us the preferred choice for customers, ultimately winning business and leading to a bigger market share.

**Fig 11: Wincanton’s carbon emissions by scope\***

The percentage of Scope 1 emissions relative to total emissions dropped from 74% in FY 20/21 to 69% in FY 21/22. Despite an overall increase in Wincanton’s emissions during FY 21/22 due to higher revenue, the company managed to reduce its carbon intensity to revenue ratio by 2.1%.



Source: Knight Frank Research, Wincanton

\*Scope 1 emissions are direct emissions from owned or controlled sources, Scope 2 emissions are indirect emissions from purchased electricity, heat or steam, and Scope 3 emissions are all other indirect emissions that occur in the value chain.

# ESG beyond the ‘E’

While the environmental aspect of ESG has garnered significant attention, 3PL companies and logistics real estate developers face more significant challenges when addressing and measuring ESG’s broader scope

## ENGINE OF CHANGE

The real estate industry is directed towards more environmentally conscious decision-making, fuelled partly by the labyrinth of ESG-focused legislation and policies. Logistics companies and developers are recognising the importance of sustainability reporting frameworks, such as the Global Reporting Initiative (GRI), the Task Force on Climate-related Financial Disclosures (TCFD), and the Sustainability Accounting Standards Board (SASB). They leverage these to enhance their social and governance practices, report progress in working towards targets, and offer transparency in their operations to investors and other stakeholders.

## SOCIAL ‘VALUE-ADD’

We've touched on the growing demand for industrial and logistics assets with strong ESG credentials. Investors and stakeholders are also increasingly focusing on the social value of these assets. This is partly driven by the UK government's "levelling up" agenda, which seeks to promote economic growth and reduce regional inequality. Investors who are targeting developers, as well as suppliers wishing to work with 3PL companies, now all expect these businesses to have a social value strategy. This means assessing the added social value to the community and returns to the local economy for new developments or logistics providers taking a new lease on a building.

Real estate developers can measure their developments' social and economic value using the National Themes, Outcomes

and Measures (TOMs) Framework.

This framework measures various factors that can contribute to local communities' social value and economic growth. These factors include job creation, training and development opportunities, charitable contributions, DE&I (diversity, equity, and inclusion), sustainable transport options, protection of nearby habitats, and providing health and wellbeing amenities and infrastructure.

By measuring and reporting on these social and economic impacts, real estate developers can demonstrate the positive effects of their developments on local communities and align their objectives with broader social value strategies. Thus creating long-term value for stakeholders and helping to attract socially responsible investors, targeting companies that are prioritising sustainability.

## SHIFT IN WORKFORCE DEMOGRAPHICS

The age profile of the 3PL workforce in the UK is shifting, with a higher proportion of younger and older workers now making up the industry's workforce. Data from the top 10 3PLs shows that the percentage of employees below the age of 30 has been on a steady rise, increasing from 8% in 2017 to 21% in 2021. At the same time, there has also been an increase in the proportion of those over 50, rising from 12% in 2017 to 27% in 2021.

This demographic shift, particularly among individuals under 30, will have significant implications for real estate. One area that will likely be affected is car ownership rates. A study commissioned by the Department

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**“By measuring and reporting on social and economic impacts, real estate developers can demonstrate the positive effects of their developments on local communities and align their objectives with broader social value strategies”**

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for Transport found that the high cost of driving, changes in living circumstances, and an increase in university participation had an impact on how people used transport. Developers must take into account the evolving needs and preferences of this demographic during the planning and design stages of their projects. For instance, the reduced reliance on cars among young people may raise the need for more bicycle parking facilities or improved access to public transportation. Additionally, integrating amenities such as bike-sharing schemes or electric vehicle charging stations can further enhance the attractiveness of the real estate offering.

To ensure that the physical infrastructure and facilities meet the expectations of this generation, developers must actively engage with the end-users of their developments. Collaborating closely with potential occupants through build-to-suit projects allows for a tailored approach. Developers and end-users can work together to

identify specific design requirements, such as increased square footage of office space or the inclusion of a training hub to provide dedicated space for warehouse employees' training activities.

In addition to addressing transportation-related concerns, developers are also focusing on creating amenity spaces that promote employee wellbeing and foster a sense of community. These spaces may include features such as gyms, indoor and outdoor break areas, walking and biking trails, refreshment stations, shower facilities, and meeting spaces. Incorporating these features benefits employee health and wellbeing and helps retain staff and attract new talent.

Environmental factors such as noise, indoor air quality and light all impact mental health and wellbeing. Natural light has been shown to

improve productivity, reduce stress, and enhance employee wellbeing. Some of the top logistics developers in the UK are prioritising the integration of WELL Building principles that promote occupier wellbeing in their new projects, incorporating design features such as large windows and roof lights to maximise natural light. Installing skylights and responsive lighting systems reduces energy costs while improving employee satisfaction.

Meanwhile, as the proportion of older workers in the industry increases, developers must also ensure that their properties meet their specific requirements. This could involve incorporating ergonomic designs, providing adequate lighting, installing slip-resistant flooring, and ensuring accessibility to accommodate the evolving needs and physical abilities of the ageing workforce.

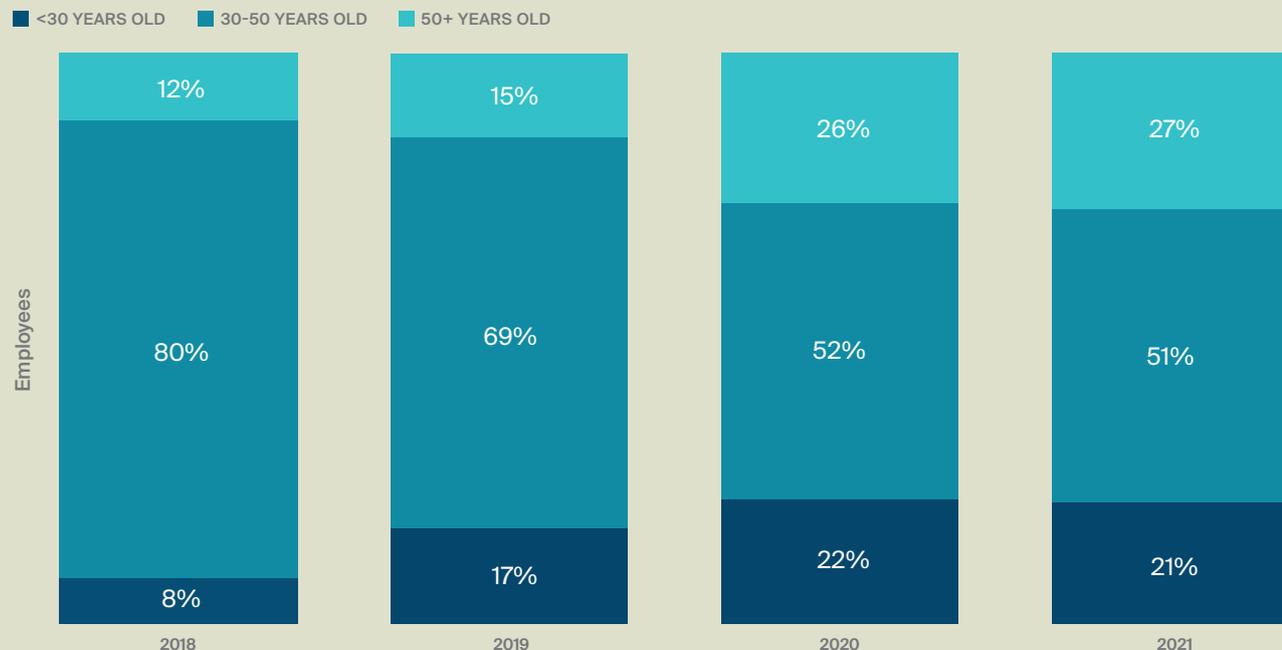
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**“In addition to addressing transportation-related concerns, developers are also focusing on creating amenity spaces that promote employee wellbeing and foster a sense of community”**

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**Fig 12: Shifting demographics**

Age of employees, top 10 3PLs, UK



Source: Knight Frank Research

# Moving towards sustainability: the latest trends and developments

We examine some of the latest logistics development projects across the UK, showcasing the sustainability features developers are now prioritising to meet the ESG targets of occupiers and investors

## Case study: SEGRO Park Tottenham - SEGRO

SEGRO Park Tottenham stands out among modern developments for achieving carbon negativity in its operational buildings, thanks to using sustainable materials and incorporating renewable energy and zero carbon technologies. The park features expansive photovoltaic (PV) panels that provide discounted energy. All units can be fitted with a SMART Core package, which includes smart building technology and sensors to monitor environmental data, energy use, motion, air quality, and water consumption.

In addition to its sustainable construction, carbon negativity

in operation, and energy-saving features, the park has dedicated biodiverse amenity spaces that include over one acre of landscaped areas with 132 new semi-mature trees and 880 linear meters of hedgerows. The site also has 2,000 sq ft of green walls, contributing to the potential removal of two tonnes of carbon from the air and adding five tonnes of oxygen to the atmosphere each year. Furthermore, SEGRO is a Gold Leaf member of the UK Green Building Council, further emphasising its commitment to sustainability.

### KEY DEVELOPMENT SUSTAINABILITY FEATURES

- EPC A+ rating
- BREEAM 'Outstanding'
- PV panels generating discounted renewable energy
- Electric vehicle (EV) charging points for cars and vans
- 0% landfill waste from construction
- Rainwater harvesting to provide water for landscaping

### OTHER GREEN FEATURES

- Outdoor seating and gym
- Secure covered bicycle parking spaces

SEGRO Park, Tottenham - courtesy of SEGRO



## Case study: Ascent Logistics Park, Leighton Buzzard - Firethorn Trust

Ascent Logistics Park, Leighton Buzzard, is an example of a scheme designed to encourage a positive and sustainable working lifestyle, particularly focusing on employee wellbeing. The facility has modern amenities, natural lighting and spacious facilities to provide a high-quality working environment. Dedicated cycle and pedestrian routes and expansive landscaping also create outdoor spaces for employees.

The scheme, developed by Firethorn Trust, was accredited by the UK Green Building Council for its net zero carbon construction. It comprises eight high-quality logistics warehouses with BREEAM 'Very Good' and EPC A ratings, integrated with smart design to provide best-in-class warehousing facilities. LED

lighting in offices, electric vehicle charging points and 5% photovoltaic (PV) arrays are incorporated, with future provisions available for additional solar power generations. In addition to Firethorn's certification as a carbon neutral company, the development company works closely with occupiers to ensure effective responses to their operational needs.

On the social side, Firethorn also has a long-term partnership with the charity Groundwork, collaborating to deliver a community programme across the UK. This includes empowering teams on the ground to tackle key social issues – such as food poverty, social inequality, education and employment – to impact the areas in which they build new schemes positively. This includes

### KEY DEVELOPMENT SUSTAINABILITY FEATURES

- EPC A rating
- BREEAM 'Very Good'
- LED lighting in offices
- 5% PV arrays
- 15% roof lights
- Electric vehicle (EV) charging points
- 15m eaves height

### OTHER GREEN FEATURES

- Maintained landscaping

a new community garden in Leighton Buzzard, producing food to support those living in food poverty.



# Conclusion

## ESG objectives will continue to be at the top of the corporate agendas of 3PLs and logistics developers

The implementation of MEES and the proposed 2030 deadline, increased demand for warehouses with BREEAM certifications, a growing emphasis on the social value of new assets, and the ever-increasing need for transparency around operational emissions and carbon reduction, are the main drivers behind this.

With ESG now playing a much more prominent role across the UK's largest 3PL operations, developers and investors are embedding ESG considerations into their strategies, from the procurement process right through to asset management. The right ESG-focused real estate offers more efficient energy use, lower energy costs, and minimised climate-related risks while being more attractive to occupiers and their employees.

Nevertheless, the logistics sector is still in the early stages of making

meaningful changes to address environmental practices. This report highlights geographical variations in the progress rates and identifies regional risk hotspots where warehouses face significant challenges in achieving energy efficiency targets before the potential MEES 2030 deadline. Approximately 404 million sq ft of UK warehouse space has been identified as being at risk of failing to meet the minimum EPC grade B by 2030.

However, amidst these challenges, opportunities arise from the growing occupier demand for larger, better accredited, and well-specified warehouses. As occupiers increasingly seek sustainable and energy-efficient buildings, developers and investors will look to capitalise on this trend. To meet customer expectations and achieve net zero targets, developers

must continue incorporating embodied carbon reduction strategies and sustainable design principles into their new warehouse developments.

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**“With ESG now playing a much more prominent role across the UK's largest 3PL operations, developers and investors are embedding ESG considerations into their strategies, from the procurement process right through to asset management”**

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We like questions, if you've got one about our research, or would like some property advice, we would love to hear from you.

**Logistics and Industrial Agency**

Head of Logistics and Industrial Agency  
Charles Binks  
charles.binks@knightfrank.com  
+44 20 7861 1146

**Industrial & Logistics Capital Markets**

Head of Industrial Capital Markets  
Charles Divall  
charles.divall@knightfrank.com  
+44 20 7861 1683

Head of Logistics Capital Markets

Johnny Hawkins  
johnny.hawkins@knightfrank.com  
+44 20 7861 1519

**Industrial & Logistics Research**

Head of UK & European Industrial Research  
Claire Williams  
claire.williams@knightfrank.com  
+44 20 3897 0036

Senior Analyst

Deirdre O'Reilly  
deirdre.oreilly@knightfrank.com  
+44 20 3995 0785

**ESG Research**

Head of ESG Research  
Flora Harley  
flora.harley@knightfrank.com  
+44 20 7861 1436

Senior ESG Research Analyst

Nicola Ryan  
nicola.ryan@knightfrank.com  
+44 20 3967 7140

**Energy and Natural Resources**

Head of Energy and Natural Resources

David Goatman  
david.goatman@knightfrank.com  
+44 20 7861 5109

Head of ESG Consulting

Jonathan Hale  
jonathan.hale@knightfrank.com  
+44 20 7861 1181

**Valuation & Advisory**

Head of Commercial Valuation & Advisory  
Roger Young  
roger.young@knightfrank.com  
+44 20 7590 2464

Partner

Giles Coward  
giles.coward@knightfrank.com  
+44 20 7861 1679

**Planning**

Partner

Nick Diment  
nick.diment@knightfrank.com  
+44 20 3866 785

