



Enemy at the gates: empty rates could cost region's owners more than £20m

PHOTOGRAPH: ALAMY

Industrial destitution

■ The impending empty rates legislation will hit landlords in Yorkshire harder than most. Hardeep Sandher reports

THE DAY OF RECKONING IS APPROACHING FOR THE industrial sector. Empty rates legislation comes into force in less than eight weeks and the cost to landlords could be more than £20m.

Last month it was revealed that warehouses that had already been empty for six months would face charges from 1 April, not six months into the legislation as previously thought. This could be a bigger blow for Yorkshire, where the industrial sector has been flourishing for the past five years, than anywhere else.

There is up to 10m sq ft of vacant warehouse space in Yorkshire, all of which has arrived over the last five years. A buoyant investment market enabled developers to speculatively build large distribution warehouses around the region.

'We estimate that currently there's around 10m sq ft of vacant stock across Yorkshire,' says Dave Robinson, associate director of industrial agency in Jones Lang LaSalle's Leeds office, who admits the outlook is gloomy as 1 April looms. 'That could equate to £20m of rates liability for owners of vacant industrial premises.'

As the deadline approaches, there are concerns that over the next three years the supply-to-demand ratio on which the Yorkshire industrial sector has so heavily relied will close.

'Yorkshire is probably one of the regions that is going to get hit the hardest because of the amount of speculative development that has gone on,' says Mike Baugh, director at DTZ.

But Andrew Gent, co-founder of industrial specialist GentVisick insists that, despite the

impending charges, he has not seen a change in developers strategies as yet.

'To date it hasn't affected the industry, although I think everyone is expecting a cut in rents and it has been referred to by one or two occupiers in negotiations,' says Gent. 'As we get nearer the day, one would expect there will be more sympathy among developers to accept lower rental prices to offset liabilities.'

SHORT-TERM FIX

Although these negotiations are likely to benefit the occupier in the short term, it could lead to an increase in rents in the medium-to-longer term as, once existing stock is exhausted, speculative development is likely to cease.

'It has been a great market in the past three years and it is still steady at the moment. But no one is going to spec build this type of product, bearing in mind the rent liability could be between £1.25m and £1.5m a year,' says Gent.

However no panic slashing of rents or people offering 'silly deals' to get occupiers into empty buildings before April has been reported. Nor have developers pulled out of projects because of the impending rates either. GentVisick is still going ahead with its plans at Thorne near Doncaster for two units totalling 222,000 sq ft, despite the additional liability not being factored into the development.

This still leaves the question on how to avoid empty rates on existing buildings unanswered, something which agents and owners agree is a difficult task.

'We don't know if the rate is avoidable at the moment,' says Baugh. 'There are various measures which have been mooted as potential



options for avoidance, but how successful these will be is unknown until the legislation kicks in.'

And what about future development? Evans Property Group admits it will be 'thinking twice before building speculatively because there is the potential for empty rates to bite very quickly following the completion of a building'.

'We do incorporate empty rates costs in. We're doing a lot of budget planning at the moment for the next three-year period and wherever we have a void we have to factor in empty rate liabilities,' says Alan Syers, portfolio director at Evans. 'For shed developments it is now just another factor that will mitigate against speculative development.'

An additional concern is that, aside from the approaching rates liability, the industrial market is already experiencing a slowdown.

'Before, banks and other lenders were extremely keen on industrial accommodation and were forward-funding speculative builds,' says Owen Holder, partner at Knight Frank. 'But speculative development has slowed with the credit crunch in the investment market, meaning that lenders are nervous about yields and rental growth.'

Currently the largest available warehouses in Yorkshire are at First Point, Doncaster which has 939,000 sq ft in three buildings, Cosmic Park with 665,000 sq ft at Sherburn-in-Elmet and Dearne Valley in Barnsley, which has 525,000 sq ft. Whether or not these will be let before the legislation kicks in should give landlords in Yorkshire some idea of what to expect in the new, empty rates era. ■



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