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## What's up dock?

Lisa Pilkington, 06 June 2009

**Holed on the waterline:** With the manufacturing sector badly injured and ports feeling the pain, what are the prospects for Yorkshire and The Humber? Lisa Pilkington reports

The Yorkshire tourist board may be preparing for a bumper year as holidaymakers shun their annual foreign breaks and turn instead to recession-induced holidays, but industrial and distribution occupiers in the Yorkshire & Humber region are less than cheerful.

And with good reason: while the spiralling economy was expected to be hit hardest in the financial services and retail sectors, figures from the Office of National Statistics released last month showed that in the first quarter of 2009 manufacturing and inward investment were taking the biggest knocks instead.

For a region that is home to the UK's busiest ports, and with significant dependence on both manufacturing and logistics, this news was particularly unwelcome.

Regional development agency Yorkshire Forward has calculated that the regional economy shrank by 0.6% during 2008. A much larger drop of 2.7% is forecast for this year, which equates to a gaping financial hole of almost £2.2bn.

The double whammy of this, along with the downward movement of sterling, has hurt imports while simultaneously failing to stimulate exports to a level closer to imports.

Significant growth of exports in the region is not now expected until late 2010, while Yorkshire Forward suggests that real net job growth is unlikely before 2012 and that it will be 2016 before regional employment regains 2007 levels.

This means that further jobs cuts are expected, and Yorkshire Forward estimates that as many as 120,000 are at risk between now and 2011. Of these, 43,000 are likely to be at manufacturing firms, accounting for 14% of the total employed in the sector.

Yorkshire Forward was unavailable for comment.

The unwelcome economic statistics are, perhaps unsurprisingly, mirrored by pessimistic outlooks for occupiers in a string of confidence surveys. Ipsos MORI's National business survey, undertaken last November on behalf of all regional development agencies, found that more than half of businesses (56%) in the Yorkshire & Humber region expected the business climate to deteriorate during the next year.

Expectations of domestic orders were hardest hit. Distribution firms believed that they were 39% less likely to gain more domestic orders this year.

This year, the Institute of Chartered Accountants' Business confidence monitor report revealed that business confidence in the region fell in Q1. Two-thirds of businesses felt less confident about their economic prospects over the next 12 months than Q1 or Q4 last year.

Meanwhile, the British Chambers of Commerce's quarterly economic survey for Q1 2009 found that manufacturing firms' balances were the worst on record. The survey says: "The results show that the UK recession is still very serious and likely to continue for some time. The data highlights a very worrying deterioration in manufacturing, with falls to record lows in almost all critical indicators."

## Cause for concern

Richard Wightman, president of Yorkshire & Humber Chambers of Commerce, says: "The manufacturing figures are a major cause for concern for the region. Yorkshire is far from alone in experiencing such worrying trends. Firms here are performing better than the national averages on key indicators, but manufacturing remains more important to us than to most other regions."

Overall, he says, the figures for the region are still very weak. He adds: "Although the rate of decline is slowing, it would be premature to talk about any kind of recovery, as a majority of businesses are still reporting falling sales, orders and confidence."

In this climate, the prospects for commercial property seem far from buoyant, as research from BNP Paribas confirms. The property consultancy forecasts that the industrial sector will see the biggest rental decreases of 2009 (10.7%) in the region, while capital values for the sector will plummet by 13.8% over the same period. Yields in the region have dropped by almost 2% this year, the second largest fall in the UK, according to CB Richard Ellis.

At present, Lambert Smith Hampton estimates that more than 29m sq ft of industrial space is available across Yorkshire and that most of it (89%) is secondhand. With manufacturers reluctant to take new leases, landlords are looking to other types of occupier to generate take-up.

Although discount food retailers such as Netto (400,000 sq ft), Lidl and Poundstretcher (500,000 sq ft each) have been great white hopes for those looking to shift space, LSH's head of industrial, Rob Whatmuff, says that they are proving elusive in the region. "Lidl and Netto both have requirements but they are very slow moving and you can't pin them down for a deal at the moment," he says.

Nevertheless, a few large requirements are still believed to be circling the market, including two manufacturing-led searches for 250,000 sq ft and 100,000 sq ft. The former requirement is for an as-yet unknown occupier, while the latter is believed to be for wind turbine manufacturer SEW. Leeds-based property consultant Gent Visick is advising on both requirements.

## Pressure is on

For developers or headlessees with empty properties, the pressure is on to find any kind of occupier.

Speculation is mounting that ProLogis is looking to strike a cut-price deal at its 220-acre ProLogis Wakefield development. A source says: "Two occupiers are in the running for one new-built unit of 256,000 sq ft – they are Northern Foods and an existing tenant on the park." As Estates Gazette went to press, the existing tenant was the front-runner to sign the deal.

At Helioslough's Nimbus Park in Doncaster, third-party logistics giant DHL had the MFI contract from 2007 until the furniture retailer went bust in 2008. According to a source close to the logistics firm, DHL has had to underwrite the lease for the first five years – to 2012 – for the 750,000 sq ft shed, at a rent of £4 per sq ft, plus rates.

The source said: "It's a very chunky commitment – you're looking at £3.5m to £4m pa. Surely, DHL must be trying to surrender the lease."

Rupert Visick of Gent Visick says that landlords should be watching the secondhand car market.

He says: "I believe there's going to be a fundamental change in people's mentality, with car ownership becoming less important and leasing being the future. This will bring a whole new tier of opportunities into the shed market."

Visick gives an example of a deal concluded at the end of last year – with internet car dealer Autoquake, for a 250,000 sq ft unit at Radial Park in Leeds – as the type of transaction that could become more common this year.

Another possible take-up generator is waste recycling, stimulated by the European directive to reduce landfill sites. Viridor Laing is looking in West Yorkshire for a site to house up to 150,000 sq ft, and New Earth Solutions and SLR Consulting have similar requirements in South Yorkshire.

### Any port in a storm

The Humber ports handle the most goods shipped into and out of the UK by volume. Provisional figures from the Department for Transport show that 91m tonnes arrived at or departed from ports including Hull, Grimsby and Immingham during 2008. The last two are the UK's busiest ports, handling a total of 65m tonnes last year.

As expected, volumes are down on 2007 figures, although by less than the national average of 3.3%. For the Humber ports as a whole, volumes fell by 2.8%, although the drop at Grimsby and Immingham was only 1.5%. The flows are not all balanced: last year, more than 71m tonnes (nearly 80% of the total) was imported via the ports, but less than 20m tonnes was exported.

Associated British Ports owns most of the Humber ports, and a spokesperson says: "These ports are very important to our business.

"Yes, the economy is more difficult at the moment, but we are customer led and we are building infrastructure on the back of these long-term relationships.

"Our South Humber ports have a varied cargo base of commodities, with steel, coal and vehicles."

At ABP's port in Grimsby, logistics company Gefco has just started a weekly car service from Grimsby to Zeebrugge with a capacity of 750 vehicles per voyage.

The initial shipment included a cargo for LTI Vehicles. Andrew Gent, partner at Gent Visick, says: "The first sailing was a fleet of London taxis destined for Valencia in Spain."

Developers near the main Humber ports are still keen to cash in on the potential of their location, though activity on these sites, as elsewhere, has halted as the recession has taken hold.

Able UK is developing its Able Humber Port Facility, north of Immingham Port, which it claims is the UK's last remaining strategic development site facing a deep-water estuary.

The first phase of AHPF, covering almost 200 acres, is already completed and Able claims that it could attract £3bn of investment during the next decade. The length and extent of the economic downturn could hinder such plans.

Imports and exports through the Humber ports	2008 imports	2008 exports	Total

	tonnes (m)	tonnes (m)	tonnes (m)
Grimbsy and Immingham	49.88	15.39	65.27
Hull	9.37	2.88	12.25
Rivers Hull and Humber	9.08	0.26	9.34
Goole	1.64	0.52	2.16
River Trent	1.51	0.48	1.98
Total	71.48	19.53	91.00

Source: Department for Transport

Humber ports' traffic by type		
	Tonnes (m)	%
Bulk liquid	34.6	38
Bulk dry goods & general cargo	34.8	38
Lift on, lift off	3.2	4
Roll on, roll off	18.4	20
Total	91.0	Source: Department of Transport (provisional figures for 2008)