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# DAVID IS THE NEW GOLIATH

**The tables have turned** Smaller occupiers are helping to shore up the market. But will it be enough to secure the future, asks *David Harris*





Even in a recession, bad news is rarely bad for everybody. Industrial occupiers, for example, may be able to negotiate better terms on deals, notably by lengthening lease and rent-free periods.

As Savills director Paul Harknett observes: "Clearly, the tables have turned in the past 12 months and occupiers are in a stronger position than they have been for many, many years."

Against that, say Harknett and others in the sector, there has been no significant increase in choice of property because almost everybody has stopped building.

#### Big-shed shortage

This, says Andrew Jackson, partner at North Rae Sanders, means that there is still a shortage of big sheds, at least in some parts of the country.

While occupiers may find themselves in a stronger position, some landlords are digging in their heels. As Jackson points out: "Landlords are saying 'yes, we know the market has changed, but we are not going to give away a building for nothing'. This is one reason why there has been no real collapse in rents."

Despite the attempt at bravado, the entire market has been badly hit by the fall in capital values of land and existing sheds. Jackson says that the

Shower with praise: with its 200,000 sq ft design-and-build project (left) at Bretton Park, Dewsbury, Traditional Contemporary Bathrooms is among the smaller occupiers helping to keep the market buoyant

#### Kingsway Business Park

Design-and-build schemes may be thin on the ground in 2009, but not non-existent. One example is the 616,250 sq ft warehouse and 250,000 sq ft mezzanine which has just won planning permission from Rochdale council for development at the town's Kingsway Business Park.

Existing tenants at the park include Vindon Scientific (pictured, above).

And developer Wilson Bowden is constructing a warehouse there for a tenant - understood to be J2 Sports - in a scheme that will also provide 22,500 sq ft of office space.

downturn has not only halted speculative building but also design-and-build projects, because some developers have paid so much for land that property built on it now would require a rent too high for tenants to consider paying in 2009.

Len Rosso, head of industrial at Colliers CRE, agrees broadly with this analysis, but adds that rents are now starting to fall as the new reality becomes apparent to landlords. He predicts a 5%-10% drop in rents over the next 12 months.

He adds: "At some stage, most landlords are going to take the attitude that taking a loss is better than leaving land sitting around doing nothing at all."

And Rosso points out that the fall in land values means that now is a good time for anyone who wants to buy land for their own company's

expansion. He says: "In Croydon, just to take one example, you would have paid £1m per acre for land a year ago. It's now half that."

This is one reason why deals are still being done (see panel, p76) and why some developers can already see good opportunities for investment.

Jason Stowe, managing director of Harrogate-based Wilton Developments, says there are even signs that manufacturers will be signing deals on new sites in 2009.

Stowe says that there has been a noticeable shift in the nature of enquiries for industrial sites, particularly from occupiers with design-and-build requirements; they have moved away from warehouses and towards manufacturing.

One example is Wilton's mixed-use, 55-acre Turbine Business Park near Sunderland, on land formerly owned

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### Some deals are still being done

Of the few industrial deals taking place in the difficult economic climate this year, most involve secondhand stock.

A typical deal is online fashion retailer Boden's leasing of an 85,000 sq ft warehouse from Autoglass at Meridian Business Park in Leicester. The building is

next to Boden's existing 100,000 sq ft warehouse and provides expansion space for the company.

The deal also allows Autoglass to see out the end of its lease on the building. The windscreen firm vacated several years ago and had previously sub-let it to another tenant.

Autoglass also let 73,000 sq ft to

Terex Pegson at Interlink Business Park, Bardonia, last November.

Geoff Gibson, head of LSH's Leicester office, which acted for Autoglass, says: "The industrial property sector is certainly not easy at the moment but, as these two deals demonstrate, occupiers are still out there in the market."



by Nissan. Wilton bought it from the car manufacturer in a joint venture with developers Clugston and Barmston, and the site has outline planning permission for 700,000 sq ft, of which 580,000 sq ft can be industrial, warehouse or office space.

Stowe says: "I'd say that 60% of the enquiries about this land have been from manufacturers."

If he seems relatively relaxed about the recession, Stowe says this is because Wilton is privately financed and is a "Yorkshire business with a Yorkshire mentality". He adds: "We didn't pay top dollar for any land we bought, so we are not as exposed as some people."

Agents need to be fast on their feet to deal with the changing market, but most take a pragmatic approach.

#### Market thinning out

Andrew Gent, partner in the Yorkshire-based industrial specialist Gent Visick, says: "There are still transactions taking place but the big-shed market is going to be thin for some time to come, especially with retailers cutting stock levels to improve cash flow."

Gent Visick's philosophy for dealing with such a change is straightforward. "Instead of being

Seeing clearly now: Lambert Smith Hampton acted on behalf of Autoglass when it let 73,000 sq ft to Terex Pegson at Interlink Business Park in November

### Scotland

The Scottish industrial market is following the rest of the UK into decline, according to Colliers CRE.

In its spring 2009 *West of Scotland industrial and logistics review*, the agency highlights the fall in deals, but notes that demand is holding up for smaller units - under 10,000 sq ft.

Although there were six new buildings at Eurocentral near

Glasgow in 2009, totalling 420,000 sq ft, and four built by St Modwen totalling 85,000 sq ft at Pegasus Business Park, Hillington, development for 2009 is virtually zero.

The report adds: "Static rents, rising construction costs, softening investment yields and a dearth of development funding are all conspiring against developers."

primarily a big shed agent, we have become a small shed agent," he says.

Gent, along with others, expects to be dealing with occupiers looking for more short-lease lengths - "three rather than 15 years" - an arrangement which may suit landlords as well as tenants. This is because landlords are having to offer such good deals to tenants in 2009 that a short lease might allow them to re-negotiate terms from a stronger position in three years' time.

Gent is phlegmatic about the changes in the market. He says: "The falling away of the big shed market will be partly offset by the smaller businesses, including the start-ups

that come out of redundancy."

In the meantime, it will be the smaller occupier that will help to keep the deals going. One example is Traditional Contemporary Bathrooms which last month took possession of a 200,000 sq ft, purpose-built distribution centre at Bretton Park, Dewsbury. The bathroom company was confident about its expansion, despite the recession.

These smaller deals from occupiers may be keeping the market going for now. But even so, agents are still worried that even these occupiers will dry up. As Gent concludes: "I'm not worried about this year, but next year may be a different kettle of fish."