

Insider, January 2009

Commercial property

Industrial distribution

# Brewing up a real blow

Industrial and distribution property, once one of the Yorkshire property industry's biggest success stories, has been hit badly in recent months – by the economic storm and government policy. **Andy Coyne** reports



**BIG SHED** Magna 34 business park, Sheffield.

If you had deliberately set out to create 'perfect storm' conditions to decimate the industrial property market, you may well have come up with what has happened in the past few months.

The economic slowdown, a surplus of speculative product and the cancellation of rates relief on empty buildings has forged an environment in which development in the distribution and logistics property sector – 'big sheds' to you and me – has come to a standstill.

The region has been attractive to big shed developers. Its network of motorways and A roads, access to a big labour force and ease of reaching vast numbers of the population have made it an obvious base for building large warehouse and distribution facilities.

What has led this market is demand

Future development plans have been scrapped, if they are speculative, while some planned joint ventures have been shelved. Marks & Spencer announced it is to delay building its £67m distribution centre in Bradford after a sharp fall in profits. The centre – which was supposed to open in 2010 – was to be a joint venture between M&S and international big shed developer ProLogis.

And worse news could follow. As *Insider* went to press, speculation was rife about the future of the 750,000 sq ft warehouse in Thorne, near Doncaster, following the collapse of furniture retailer MFL, which used the warehouse as its distribution centre. The warehouse, run by DHL, will close on 23 February if a buyer isn't found.

If too much speculative development

rates on large empty sites they have little hope of renting out.

Against such a backdrop Yorkshire developers and property agents are, mostly, being brutally honest about the dire state of the market.

Andrew Gent, founder of Leeds-based specialist industrial property agency Gent Visick, says: "The speculative development pipeline has been turned off. The last scheme of any size is at Capitol Park at Doncaster where a 137,200 sq ft building and an 83,000 sq ft building are expected to complete in January 2009. That's pretty much the last of the speculative development. The demand side has fallen significantly."

Gent Visick is advising on numerous industrial schemes in the region. These include Capital Park Goole, where tenants include Tesco – it has a 700,000 sq ft distribution centre there. There is still 200 acres of development land available at the Sterling Capitol scheme.

Developers, though, are likely to remain reluctant to put a spade into the ground for some time. Eldon Stevens, property manager at Sheffield-based developer Loxley Land and Property – the developer of the Magna 34 business park on an old steelworks site near junction 34 of the M1 in Rotherham – says: "We wouldn't build a big shed speculatively at the moment."

Loxley has already built a 150,000 sq ft distribution centre and smaller industrial units at the site, and Stevens sees more

"The speculative development pipeline has been turned off.

Capitol Park in Doncaster is pretty much the last of it." **ANDREW GENT**

from large retailers and the third-party logistics businesses that service them. A seemingly unstoppable upward curve in demand led to many developers building large sheds on a speculative basis. The sudden slump in demand from retailers battered by recession has left many developers with large amounts of stock on their hands. Industry experts suggest there is more than 4 million sq ft of empty big shed space in Yorkshire.

and the state of the economy weren't enough, a change to the empty rates legislation has left developers reeling.

In a classic example of the law of unintended consequences, a government plan to get the property market moving by prompting developers not to sit on empty property has misfired spectacularly in such a difficult operating environment. Developers who 'spec'd' big sheds during the good times are paying heavy

Commercial property

# Leeds Industrial

prospects at the smaller unit end.

"There is still activity from companies with new management structures and a lot of equity in their property," he says. "On the big shed side the only people who seem to be in the market in distribution are people doing well on internet trading. Over the past 12 months retail has gone backwards while the internet has gone forwards. There is also a focus on incentives to supermarket chains doing well, such as Aldi and Lidl."

Those incentives don't seem to be bringing down headline rents, which stubbornly remain at between £4.50 and £4.75 a sq ft in Yorkshire – but everything else seems up for grabs.

"People are being given a couple of years rent-free," says Stevens. He suggests Loxley Land is in a decent situation with little debt and a cash-rich parent in the shape of EDS. "I still have a substantial hunting fund. These times are good for buying," he says.

Matt Crompton, joint managing director of Muse Developments, says his company should also benefit from being circumspect during the boom times.

"We are not exposed to speculative development," he says. "People were enticed into speculating when there was a lot of available development finance."

But Crompton – whose firm is involved with the large-scale Logic Leeds scheme – remains confident about the big shed market's prospects. "Those exposed to speculative developments will carry empty buildings through 2009. It has knocked market confidence but it will bounce back. And when it does there will be pent up demand, so it should come back fairly quickly," he says. "The early part of 2009 will be difficult but we will start to see green shoots at the end of the year."

"For a spell people will be more circumspect, but fortune favours the brave. People will think a lot harder as the development market got overheated. But as the market heats up again there will be more speculation."

Like most in the commercial property industry, Crompton believes the government's empty rates legislation initiative was ill thought out. "It has had a big effect. There is no joined-up thinking," he says. "People want regeneration but taxing empty buildings means there is less incentive to build speculatively."

Dave Robinson, associate director of property agent Jones Lang La Salle's industrial and logistics team in Leeds,

says it is hard to quantify the effect empty rates legislation has had because of it coinciding with the downturn in the investment market.

"But it has started to impact," he says. "Some landlords are rendering vacant space that's unusable and demolishing their buildings to avoid paying rates. The rates are also contributing to the reduction of speculative development as developers allow for the cost of void period rate liabilities."

But Gillian Oliver, rating director at property agent DTZ in Leeds, has seen a change in the attitude of some local authorities to collecting these rates.

"When the empty rates legislation

first came into effect in April 2008 we saw vigilant billing authorities swiftly serving completion notices on any new industrial and commercial developments within their areas," she says.

"Several months later, with limited prospects of letting some completed schemes, certain developer/owners are even threatening demolition of new unlettable buildings as a result of huge empty rates liabilities. As a result, in some areas local authorities may now be adopting a different attitude and perhaps turning a blind eye to new schemes, rather than risking losing the potential long-term employment opportunities when things pick up."

## BRAVING IT



**MISSING LINK** East Leeds Link Road team

Although there is a surplus of stock in the big sheds market, there isn't a surplus of new development land available, and land prices are still relatively high.

But there is a number of large schemes starting to unfold. Some of the more interesting ones are linked to regeneration, and one of them is Logic Leeds.

This is planned as part of the regeneration of the Aire Valley, which it is hoped will eventually lead to the creation of 27,000 jobs on 400 ha of development land, offering a million sq m of new employment floorspace.

A new £32m link road – the East Leeds Link Road – is also part of the ambitious scheme to the south east of Leeds city centre. The road will connect Leeds city

centre to the motorway network via junction 45 of the M1.

Muse Developments has planning permission for more than 140,000 sq m (approximately 1.4m sq ft) of warehousing and industrial space on the 50-acre Logic Leeds site.

Elsewhere, Gladman Developments has won planning permission and started ground preparation works for a £20m, 317,859 sq ft industrial and distribution scheme at Wentworth Distribution Park in Tankersley, South Yorkshire, less than one mile from Junction 36 of the M1 motorway.

And an industrial estate near York has been bought by a consortium funded by Mitre Capital and five private Yorkshire-based investors.

The Allerthorpe Industrial Estate at Pocklington was purchased for £3.9m from RSH Properties. The 12-acre site is located just off the main A1079 Hull Road.

The new owners hope to be able to release new land for development in early 2009.



**SOLD** Allerthorpe Business Park

Commercial property

Industrial forecasts

Oliver says that watering down legislation with a one-year exemption from rates for empty business premises with a rateable value below £15,000 "has done nothing to ease the burden for most speculative developers that are suffering worst".

Gent at Gent Visick agrees. "A £15,000 move will help people with starter-sized units but it won't help people with significant voids," he says.

Rob Whatmuff, head of industrial agency at Lambert Smith Hampton in Leeds, doesn't see developers demolishing recently built big sheds, however.

"Although empty rates for a shed of 100,000 sq ft is a massive bill, we have not seen any knocking down on the distribution side of things. There is too much value in the buildings," he says.

In such a tough operating environment it is inevitable that property professionals will latch on to any possible source of good news. Gent talks about demand from discount retailers. "There has been an adjustment towards companies that make money in poor markets. For every

MFI that is struggling there is someone else coming through," he says.

But Whatmuff at Lambert Smith Hampton says he hasn't seen any evidence of this. "We have not seen more demand from budget chains. They also use third-party logistics firms and there is a lot of excess space," he says.

Rob Oliver, head of the industrial team at GVA Grimley in Leeds, adds. "We are not seeing it in terms of warehouse requirements. Historically budget supermarkets have bought land and done their own thing," he says.

He thinks Yorkshire is suffering more than other areas because it became such an attractive location during the good times. He says: "We had a real boom in Yorkshire for creating 100,000 sq ft sheds. We have got a lot of stock, particularly in South Yorkshire.

"The frustration for the market is that there has been a lot of design and build, which has meant that what is in the market has not been soaked up."

He predicts a difficult 2009 but also identifies a lack of stock at the smaller



GENT There's demand from discount retailers

end of the industrial market.

"There are three problems: the economy, existing supply and empty rates. It will be 18 months before we see any speculative development," he says. "But on the smaller side, there are relatively few 70,000 to 80,000 sq ft units so the argument is the other way. There is a shortage of new space." ▶



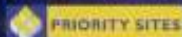
deltacourt

Directorate Sheffield Robin Hood Airport  
new hybrid/industrial units

For Sale/To Let

Unit	Status	Size (sq ft)	Price (sq ft)
1	Sold	10,000	909.0
2	Sold	10,000	933.0
3	Sold	6,250	581.6
4	Sold	4,000	371.8
5	Sold	4,500	371.8
6	Let	4,000	371.8
7	Under Offer	6,250	581.6
8	Sold	3,000	278.7
9	Sold	3,000	278.7
10	Sold	3,000	278.7
11	Under Offer	10,000	909.0
12	Under Offer	1,000	90.9
13	Available	5,000	454.5
14	Available	4,000	371.8
15	Available	4,000	371.8
16	Available	6,000	545.2

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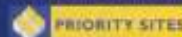
shortwood  
business park

For Sale/To Let

New industrial/warehouse units  
in Barnsley (J36 of the M1)

Unit	Status	Size (sq ft)	Price (sq ft)
1	Sold	10,000	909
2a	Sold	6,198	575
2b	Sold	6,198	575
2c	Sold	6,198	575
2d	Sold	6,198	575
3	Sold	20,000	2,000
4	Under Offer	10,000	900
5	Available	10,000	900
6a	Available	4,000	350
6b	Available	4,000	350
6c	Available	4,000	350
6d	Available	4,000	350
6e	Available	4,000	350
6f	Under Offer	4,000	350
6g	Available	4,000	350
6h	Available	4,000	350
6i	Available	4,000	350

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