

With such a huge amount of space on the market it seems as if the good times are ready to roll. LIZA HELPS investigates.

More attractive deals

The amount of new space in warehouses over 100,000 sq ft increased 41 per cent from the end of 2007 to the end of 2008, according to the latest Industrial Floorspace Today report from King Sturge.

In fact, Jon Sleeman of King Sturge says the total amount of immediately available floor space in units over 100,000 sq ft stood at 25.6 million at the end of March with one building of 128,000 sq ft still under construction.

Taking into account all the smaller units, Savills puts the total amount of available space in the region of 69 million sq ft, giving the UK 4.4 years supply at the end of 2008 compared to 3.6 years at the end of 2007.

In its Prime Logistics Report, Gerald Eve says that total availability in its 24 key distribution regions at the end of 2008 was 15.6 per cent, up from 14 per cent at the end of 2007. Some markets, such as Merseyside & Cheshire, South Yorkshire, Greater Manchester and Southern West Midlands have even greater availability, as around 15 million sq ft of second-hand space has flooded the market. And with business failures continuing to hit headlines, this release of space back to the market is expected to continue.

These include Alba plc's 171,000 sq ft warehouse on Mill Road, Rugby which is being marketed by Cushman & Wakefield, and the Binatone building in Milton Keynes formerly occupied by DHL, which has a substantial mezzanine area providing some 286,000 sq ft in total. Jones Lang LaSalle is marketing the building.

With so much stock available it is definitely an occupier's market and there are some cracking deals to be had. Indeed a 130,000 sq ft second-hand warehouse was secured on a short-term lease at a rent less than £3 per sq ft with further incentives including money for the refurbishment thrown in as part of the deal. This was significantly more than was on offer six months ago. There can be no doubt about it; landlords and developers are becoming more pragmatic in

their approach to securing tenants. The biggest reason for this change of heart lies in the fact that landlords and developers are seeing demand decrease.

Sally Bruer of Gerald Eve, says: "We were concerned at the beginning of 2008 about the impact of the abolition of empty rates on developers' decision to build speculatively. While this is still a concern – particularly for developers and investors with vacant properties – the primary issue now is the prospect for demand. With occupiers dropping back their requirements as the outlook for the global economy remains uncertain, demand may remain subdued over the next 12 to 18 months, although there are some occupiers that are continuing to grow more distribution space and others looking to relocate from their current warehouses."

Requirements

Mark Webster of Cushman & Wakefield says: "In the North West, year on year, like-for-like requirements for buildings over 100,000 sq ft are down 30 per cent and it is a similar story for smaller requirements as well."

Paul Harknett of Savills says: "A retreat in retail spend will inevitably have an impact on the UK warehouse market. A 34 per cent fall [in demand] is currently expected."

In terms of regional trends, there has been a significant decline in demand for space in South Yorkshire, one of the hot spots of recent years. Just 1.2 million sq ft of warehouse space was taken up in the region in 2008, down from a peak of 3.1 million sq ft in 2006. Other areas where demand has fallen back include Scotland and Avon & Somerset.

The reduction in demand coupled with the abolition of empty rates and a certain level of indebtedness is driving parties disposing of space to offer some very attractive deals for occupiers.

Developer ProLogis is one of the companies leading the charge to secure tenants and has been successful with its proactive stance. At the end of last year it announced that it was offering leases from three years with six-monthly break clauses thereafter across the whole of its five million sq ft portfolio in the UK.

Commenting on the move, ProLogis says: "In the current market, we are acutely aware that this is even more imperative and are looking to provide a range of innovative and effective packages that address lease lengths, incentives and occupational costs that enable them to operate in this continually demanding climate."

Indeed Alan Sarjant of ProLogis says: "It is a rapidly changing world and everyone was caught on the hop compared to where we were 12 months ago. The property market has had to adjust rapidly and ProLogis has responded well. We have 16 empty speculative buildings round the UK and our primary task is to get that stock income producing."

Already the company's tactics have borne fruit with the

ProLogis is currently marketing its Crossflow 530 unit in Barnsley. The cross-dock facility totalling 530,168 sq ft has 15m eaves and boasts 77 dock levellers.



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letting of a 187,500 sq ft unit at Kingston Park in Peterborough to furniture company Willis & Gambier as well as the letting of a 116,000 sq ft warehouse at ProLogis Cabot Park near Bristol to Culina Logistics.

Other developers/landlords are also being more flexible. Standard Life Investments is offering a range of incentives, with the aim of fully letting its Suttons Business Park near Reading in 2009.

Initiatives

Initiatives being offered include the payment of all or part of a new tenant's dilapidations costs on its previous premises, or fit-out of its new space at Suttons. In addition, existing tenants could benefit from a rent-free period for introducing a new tenant. Tim Johnson of King Sturge points out: "Many 3PL occupiers rather than looking at big new buildings, are looking at second-hand buildings for short-term secure flexibility. Most new buildings don't have heating and lighting whereas many second-hand units do, so in general they are better on a short-term basis."

However, such is the competition that some landlords/developers have even taken on the challenge of going head to head with second-hand space. Standard Life is marketing its 165,000 sq ft 4mation building at Cabot Park, Avonmouth as fully fitted for immediate occupation.

Paul Hobbs of letting agent GVA Grimley says: "This will reduce the ingoing tenant's capital expenditure (at a time when cash is king), and [this will] allow developers to compete on the same playing field as second-hand stock for early occupation. "The reduced capex at day one, running costs of energy

efficient buildings and final exit of such new structures, without endless dilapidation battles, can now represent a very compelling case." Joint letting agents GVA Grimley and Colliers CRE are quoting £6 per sq ft on the building.

Not to be outdone ProLogis has also launched a fit-out initiative across all its existing stock. Sarjant says that one of the biggest hurdles for tenants taking short-term leases is funding the capital cost of a fit-out. He says ProLogis is prepared to consider coming alongside a tenant with a generic fit-out which would include sprinklers, heating and lighting.

Sarjant says the developer is willing to take a longer-term view on a generic fit-out as this would enhance the marketability of the stock in the long term. To this end the developer is not looking to amortise the full cost of the fit-out over the length of a short-term lease, though of course a proportion of the cost would be annualised and paid as part of the rent.

The advantages of securing a modern building on these terms are greatly enhanced by the fact that operationally a modern building is much cheaper to run. Harknett points out a new modern warehouse is much more energy efficient and usually developed to the highest BREEAM standards, making them cheaper to light and heat.

Indeed Sarjant says that according to research by ProLogis: "It is 69 per cent cheaper on an annual basis [to run one of its buildings] than on [an equivalent] older building."

The ProLogis stock has been built to the highest of standards boasting EPC Grade A, BREEAM Excellent as well as being air tight with 15 per cent roof lights, etc. In addition, the ProLogis units are compliant for regulations such as disabled access.

ProLogis is currently marketing its Crossflow 530 unit in

Barnsley at a very competitive rate. The cross-dock facility totalling 530,168 sq ft has 15m eaves and boasts 77 dock levellers Hörmann dock doors and four level access doors as well as 15 per cent roof lights.

It has three-storey offices with double-glazing and a separate transport hub office.

Outside it has 50m-deep yards as well as parking for 157 lorries and 392 cars. Letting agents are AtisReal, Dove Haigh Phillips and Fisher Hargreaves Proctor.

Rob Oliver of GVA Grimley says: "Many [landlords/developers] are doing these deals for cash flow, often many are below cost to avoid empty rates but as soon as they can they will go up to more sustainable levels."

Nigel Godfrey of Gazeley adds: "There is an acceptance of reduced returns but what is envisaged is that there will be an improvement in capital values over the next couple of years, which will mitigate those losses."

Although there are great deals to be had, Richard Evans of Jones Lang LaSalle points out that it is not the case in every region. In fact, he says that tenants looking for space in east London could find stiff competition from LoCog, which will be running the Olympics in 2012. It has a standing requirement of some one million sq ft.

Of the units that are presently available, Jones Lang LaSalle is marketing 12 Point Bow, a new 142,000 sq ft industrial warehouse facility built on the site of the former Iron Mountain building in east London.

The building is located on the established ProLogis Park in Bromley-by-Bow, and includes approximately 16,000 sq ft of comfort cooled office accommodation over two floors. It

also benefits from 12.5m eaves height, 12 docks and four ground doors, 50kn/sq m floor loading and 1,000 KVA power transformer. The property is available to let on the basis of assignment or sub-let. Short-term/flexible leases may also be considered.

Cameron Mitchell of Jones Lang LaSalle says that the majority of tenants are looking at the more traditional locations. He adds: "Those that can be more footloose will be able to benefit from the less traditional markets where deals will be keener."

For those occupiers with cash Rob Oliver of GVA Grimley says: "There is the opportunity to buy if you can raise the capital. Brand new buildings which were being marketed for £35 – 60 per sq ft in Yorkshire are now being marketed at £35 – £45 per sq ft. The tenant then has the option to do a sale and leaseback in the future."

On a similar basis Graham Prisk of Knight Frank says: "It is possible that occupiers could acquire land from developers and undertake direct development, which may not have been an option in 2007/2008 where a developer may not have been prepared to sell land. If other land comes to the market that is not currently controlled by developers it is likely that an occupier will be at an advantage in securing the land as many/most developers are not actively acquiring land at the moment. Therefore the demand has reduced and with it land values. It is a great time to buy new land if you have the cash."

However, on a more sombre note Andrew Gent of Gent Visick warns tenants: "Like all things [the market] will come back and the costs will be recouped. In three years time renewing leases could be quite costly."

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