FTI CONSULTING

Press Cutting

Client: Griffen UK

Publication: Logistics Manager

Date: 30 September 2016

Suits you sir!

Half of all take-up transactions are now design and build: what does this mean for occupiers? **Liza Helps** investigates.

Already in 2016, 48 per cent of the space transacted has been for bespoke design and build units according to Savills' latest Big Shed Briefing. And research from Knight Frank concurs with Jon Ryan-Gill noting that in the Midlands: "More than half of take-up for the six months to June was chalked up to pre-lets and design and build."

However, Andrew Aherne of Aherne Property Consultants says it is not quite the same picture in the North West: "There have not been so many design and build transactions in the last 12 months relative to the previous 12 and that has been because there has been a lot more speculative space coming to the market."

He speculates that if Amazon had not found the space it had needed already being built it may have had to go down the design and build route. The internet retailer has snapped up four speculative sheds in the North West in Leyland, Liverpool, Trafford Park and Manchester Airport City.

Be that as it may, speculative space does seem to be drying up and availability is on a nationwide level at an all time low. Richard Ludlow of Gerald Eve says: "Availability for all buildings is at a record low of 6.4 per cent, and despite an increase in speculative development, the market is still facing considerable under-supply."

This under-supply is coupled with continuing demand; total take-up of warehouse space over 100,000 sq ft in the UK exceeded 14.62 million sq ft in the first half of the year, 29 per cent above the long term average of 11.3 million sq ft according to Savills.

The high level of take-up has had an impact on stock levels. According to CBRE in the Midlands of the 1.9 million sq ft of recently completed stock in the 100,000 sq ft plus bracket, more than half is now either under offer or the subject of strong occupier interest.

Such is the appetite for space that a lot of the speculative space coming to the market gets pre-let prior to or just after completion. Len Rosso of Colliers International says: "It was usual that speculative development would have a 9 – 12 month void period prior to letting however a combination of good fortune and lack of supply has meant that some 25 – 35 per cent are being snapped up prior to practical completion."

Such a combination of indicators could lead occupiers to expect that there will be more speculative space coming forward, however in the run up to Brexit many schemes were delayed and this has created a lull in the amount of space being brought forward on a speculative basis.

Andrew Jackson of Avison Young says: "There has been a reduction in the amount of speculative space being brought forward but if the market remains consistent then it will return."

Rui Nobre CEO of Griffen Capital which has an established logistics warehouse portfolio in the UK agrees: "Funding for speculative warehousing was shelved pre-Brexit as financing dried up due to fear of the outcome – this of course exacerbates the supply problem."

Griffen Capital itself continued with funding schemes both speculative and otherwise through this period. 'The fundamentals of the market have not changed in the short or even mid-term," he says.

According to Savills the effect of Brexit has been to slow down speculative development for the time being, with larger speculative schemes in particular in short supply.

Nick Hardie of Strutt & Parker says: "We aren't seeing any appetite from developers to speculatively undertake mega-sheds." Research by Strutt & Parker suggests that developers still remain unlikely to embark on larger speculative projects, with the largest unit in the current development pipeline totalling 370,000 sq ft.

Research by Savills notes that this year has seen strong levels of take-up for units over 500,000 sq ft, with five deals already completed in the first half of this year, compared to a yearly average of seven. This includes Amazon taking 1.3 million sq ft at Bardon and L&G Homes taking The Big 555 in Sherburn In Elmet. "Grade A and large unit supply continues to fall, with only one shed of this standard over 400,000 sq ft currently available to pre-let at Magna Park in Lutterworth. On a smaller scale, the supply of existing units of over 100,000 sq ft stands at only 29 million sq ft, across 170 separate units, which has already fallen by 14 per cent since the start of the year."

Savills anticipates that occupiers will have to turn to the build-to-suit (BTS) market to satisfy larger requirements in the future, especially as the rate of speculative announcements continue to slow. Research director Kevin Mofid says: "The supply of good quality large units remains at critically low levels, meaning that the increased prevalence of the build-to-suit segment within the market is here to stay for the foreseeable future."

A lot of demand is form occupiers specifically seeking design and build solutions; Robert Rae of Avison Young says: "We are dealing with a number of enquiries for design and build ranging from 30 – 600,000 sq ft."

James Keeton of JLL notes: "We are seeing a strengthening of demand for 'build to suit' [design and build] space because e-tail tenants have very specific requirements."

There is definitely some speculative development continuing but a lot of developers and funds are settling for increasing the deliverability of their sites by securing planning and investing in infrastructure works.

Alex Verbeek of IDI Gazeley says: "For the minute [IDI Gazeley] is focused on controlling the controllables and bringing that space and opportunities forward."

The developer is progressing two major schemes a 4.5 million sq ft extension to Magna Park Lutterworth in Leicestershire and a 60 –acre second phase at Magna Park Milton Keynes.

"The aim is to speed up delivery capability through planning and infrastructure."

Hodgetts Estates has just secured detailed planning for a 345,400 sq ft warehouse to be known as Core 1 at its £70 million Core 42 distribution hub near Tamworth. ■

> "There have not been so many D&B transactions [in the NW], because there has been a lot more speculative space...
>
> **Andrew Aherne**