



Press Cutting

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Investors from the Far East, North America and Europe have piled money into UK sheds, gambling that the UK's fast-expanding e-commerce sector will guarantee strong returns. So what, you might say? After all, you still pay the same rent for the same warehouse, whatever the address of the owner.

But think again. A three-year wave of international investor interest is beginning to cause ripples for tenants. It could mean smarter ways of doing business, improved premises, more responsive tenant-focused landlords. If you want a preview of how things could turn out, spare a few minutes to check out Rui Nobre.

Nobre, a South African who specialised in retail

property until recently, was drawn to UK sheds as recently as 2014. Since then, Nobre's companies have invested about £200m in the UK logistics property sector, with a very specific strategy based around the opportunity presented by the growth of e-commerce. Griffen Capital's tenants include Royal Mail, UDG, Sainsbury's Supermarkets Limited, Land Rover, Eddie Stobart and Aston Martin.

SPEC DEVELOPMENT

Not content with buying off-the-shelf warehouse assets, Nobre is now starting to build them himself. Griffen has begun speculative development of a 132,000 sq ft warehouse and plans another 210,000 sq ft at its 59-acre Wellesbourne Distribution Park on the outskirts of Banbury. It will appeal to the increasingly hot M40 logistics market.

Unlike UK-based investors, who focus on rental income, Nobre and other overseas investors are more interested in the capital value. So where pension funds or insurance companies or listed property companies obsess about rent rises, Nobre and other overseas buyers look instead at rising values – and their big interest is in the long-term relationships with tenants that maintain value.

Nobre explains: "For us, cash-flow – rental income – isn't the draw. The draw is the real estate, because international investors are always looking at the capital. I think in the UK there is too much of an emphasis on the long lease, it's become a cultural entrenchment and is a carryover from a feudal land system. I think if landlords paid more attention to the occupier's needs, rather than to lease length, they would develop long-term relationships with their tenants which for keep them in their property for longer."

WHY THE UK?

South African Rui Nobre could have invested anywhere – why the UK?

"We ranked 25 countries over three years, and on that analysis the last was the UK because, before the recession, the yield in the UK on logistics property was ridiculously low, below 5%. But then you look at the way you can structure your investment, and the rates of return, the availability of debt, the rule of law, time zones – and you come to the decision there is no better market," Rui Nobre says.

"I was particularly intrigued by the growth on e-commerce in a small crowded island with a large population, and obviously there would need to be logistics property infrastructure to support it."

Nobre is not worried by Brexit, even though he is landlord to a number of auto-sector operators who could be hit by tariffs. "The office sector and retail sector is uncertain, but logistics is relatively sheltered so long as e-commerce continues to grow. Brexit may even have helped the market, because some speculative development planned for 2017 has now been shelved," he says.

"In the meantime the logistics needs of 66m people on a small congested island aren't going to change. We are still super-excited about the UK."



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To many in UK property this is madness, or heresy. UK property law is indeed a direct development of the feudal system – the landmark Law of Property Act 1925 didn't so much sweep away the feudal system as remove the most obvious problems and regularise the rest. Landlord expectations have been fixed in the mould it created for nearly a century. It can mean inflexibility and (say some occupiers) a rather haughty know-your-place attitude.

Nobre thinks that has to change: “We try to be very occupier friendly. After all, like our logistics clients, we are in a service industry too and we can't afford to adopt a feudal attitude.”

FUTURE PROSPECTS

His strongly customer-focused approach – and his interest in capital value – means Nobre's investment decisions tell an interesting story about prospects for UK logistics property.

“Our guess is that rental growth will not be uniform across the UK. The best locations may see rents go up because supply is short and take-up is good – so that means round the M25, the M40 to Birmingham, the M6 to Manchester and the M62 to Leeds,” he says.

“Rents will stabilise in some locations, but in those

motorway markets the constraints look likely to keep pushing rents up. Competition from alternative uses – like residential – means a loss of land for industrial sites inside the M25, whilst demand for last-mile delivery locations within the M25 will keep up the pressure.”

Park Royal rents – up from £13 a sq ft to £20 a sq ft in three years – will continue to grow, but the further you go from London, the less rents are likely to rise.

Nobre explains: “We did some research and just seven miles' journey means the rents halve – so by the time you reach Hemel Hempstead it's £7.50 a sq ft, and down to £6.50 by the time you reach Milton Keynes.”

As rents harden, so investors like Nobre have more incentive to buy slightly sub-standard properties and bring them back up to today's specification. Providing the site has sufficient yard area – sometimes a problem – there are opportunities to buy low and sell high.

“We buy on the strength of the location. We'll sort out the floor slab, the eaves heights and we can make it a core logistics property,” he says.

This fast-moving approach to meeting need – and creating the kinds of properties occupiers want – could help shake up the UK logistics sector. ■

BIG PLANS

Rui Nobre's Griffen Capital has disclosed an 800,000 sq ft logistics development pipeline.

The South African investor – who only entered UK warehouse property two years ago – says he plans development to the value of about £125m.

Griffen has begun speculative development of an 132,000 sq ft warehouse with plans for another 210,000 sq ft of industrial development at the 59-acre Wellesbourne Distribution Park site near Banbury.

Two further smaller units are planned as part of further phases totalling 400,000 sq ft.

Occupiers at Wellesbourne include Aston Martin.

The business already boasts a portfolio of about 2.75m sq ft, acquired rapidly since 2014.

WHERE GRIFFEN BUYS

North West: 553,702 sq ft (includes Warrington: Eddie Stobart 376,228 sq ft)

Yorkshire and the Humber: 122,430 sq ft

East Midlands: 245,187 sq ft

West Midlands: 1,540,887 sq ft (includes Aston Martin: 228,529 sq; Coventry Sainsbury's warehouse: 279,197 sq ft; Wolverhampton Royal Mail: 256,770 sq ft)

