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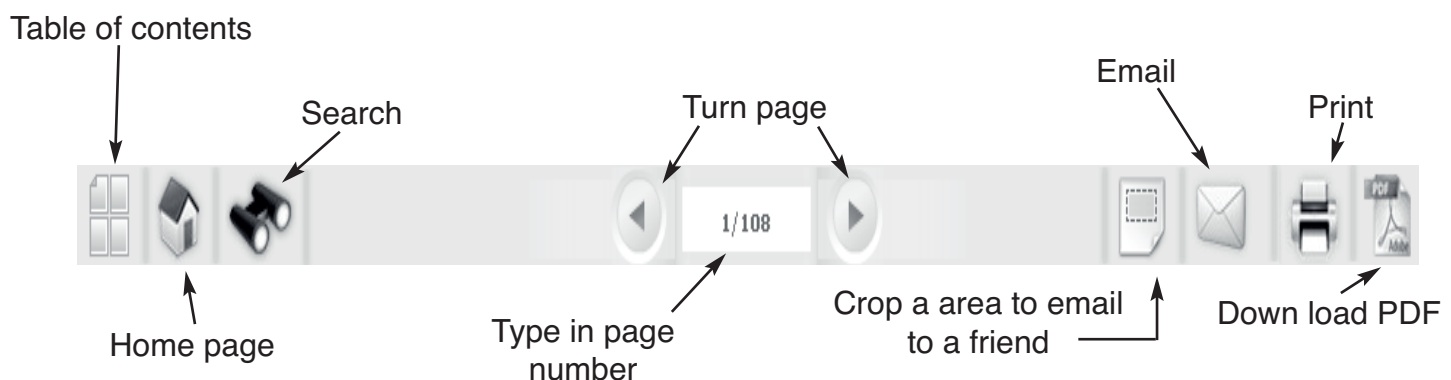
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PHOTOGRAPH: MARTIN PETTIT



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LEADER



Last year will go down as one of the worst for the British economy since the end of World War II. There is no doubt that 2009 was the year that everything changed but, in some cases, one's annus horribilis was another's annus mirabilis.

Think of Roxhill Developments, First Industrial Developments, M7 and others, who a year ago did not exist. The

entrepreneurial spirit of the sheds market has flourished during the downturn, and provided the opportunity and inspiration for developers and agents to go it alone. Nick Duxbury charts the evolution of these start-ups and discovers the world of sheds is indeed a small pond (p14).

Perhaps 2010 will be better. For example, we report on how British manufacturing, which time and again has been written off, is making a comeback. Our three case studies show that rumours of its impending death have proved to be grossly exaggerated (p21).

Whether it is the manufacturer of Disney's security gates or the makers of bridge components, occupiers are still demanding industrial space as they expand to fulfil their order books. This is true whether the shed is new or 40 years old.

This re-emergence of interest has even encouraged developers to start thinking once again about speculative development. A year ago most would have thought this foolhardy but the evidence that it may be viable once again is emerging, judging by the comments in our report (p35).

One of the few developers to complete a speculative scheme in the recession is Canmoor at Park Royal in London. Could this be the first salvo in a new wave of specs? In the Midlands there are only a handful of buildings available of between 250,000 sq ft and 300,000 sq ft.

The worst outcome would be if there were absolutely nowhere for occupiers to go when the recovery starts in earnest.

Mark Shepherd, assistant editor, Property Week

- Sub-editors: **Andy Plowman, Felicity Haythorn, Samantha Warrington**
 - Art editor: **Rob Howells**
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Savills pays Asda price for advice

Colliers CRE and BNP Paribas Real Estate retender for logistics contract. **Christine Eade reports**

Either Colliers CRE or BNP Paribas Real Estate will be appointed to advise Asda on distribution facilities next month, after the supermarket dispensed with Savills in December because of a clash of views on government planning policy.

Earlier this month, Janet Bishopp, head of estates at Asda, re-interviewed Colliers and BNP Paribas, which had been runners-up when Savills was reappointed after last summer's tendering process.

Bishopp is said to have found little to choose from the agents' presentations on how they would manage Asda's distribution estate throughout the UK. The winner may also be asked to advise on rent reviews, business rates and dilapidations.

The retendering involved a general chat rather than discussion on the dramatic events that led to the dismissal of Savills. In November at the shopping centre organisation BCSC's conference, Jeremy Hinds, Savills' director of retail planning, told [PropertyWeek.TV](#) that the Competition Commission's proposal for a competition test was an unnecessary burden on retail investment.

Asda, however, supports the competition test because it believes it gives customers greater choice – and possibly curb Tesco's dominance. Asda



Racked off: Asda needs new logistics property adviser

confronted this difference of opinion in December, when it said it would "review the relationship and services that Savills provides".

In fact, no one has carried out Asda's logistic work since then, so no decision has been taken on where it will choose a new facility in Bristol, and this could be one of the first pieces of advice sought.

Savills also lost its contract as town planning consultant for store development, and this

work is now shared by several consultants.

Savills' logistics role for Asda predates Bishopp's 2008 appointment. She tendered and reappointed Savills in August, when it had already been working for the supermarket for three years.

"We have an existing positive relationship with the Savills' team," she said then, "and we are looking forward to working closely with them to deliver further value across our distribution estate." ■

Databank: rent recovery in 2013

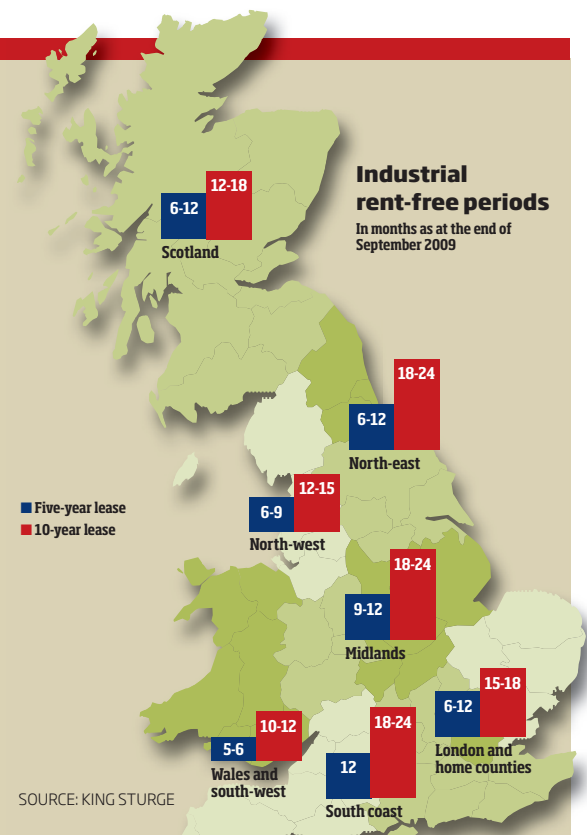
Industrial rents will continue to fall until they stabilise in 2012 and increase slowly in 2013, King Sturge has forecast.

Its research shows that, last year, rents on distribution sheds fell by 4.9%. This was more than the 4.5% fall in industrial rents generally. King Sturge attributes this to the

greater vacancy rate in distribution space.

It says: "While headline rents have actually held up relatively well, given the severity of the recession, initiatives have generally increased significantly with tenants, who are typically able to secure rent-free periods and capital contributions to fit-outs." ■

Comparative prime headline logistics rents December 2009 (£/sq ft)



Prologis pressed for £3m in Corby

Prologis could face legal action in the next few weeks if it does not pay more than £3m in section 106 payments in return for planning permission already granted for its Eurohub near Corby.

Corby Borough Council wants £850,000, which could rise to £1m by next month, and Northampton County Council wants £2.5m.

But Prologis insists work has not yet started on a 3m sq ft rail freight terminal south-east of Corby that would link to the mainline railway by a spur line.

The two councils say they will take joint action in the High Court if the money is not forthcoming.

Simon Aley, head of legal and democratic services at Corby council, says: "We could have gone through a judicial review, but instead we just invoiced them. They had permission and they started work levelling the land. But when we asked for payment, they said that things were very difficult because of the recession, and that they hadn't started. But we said: 'You

have started and we need your contribution.'"

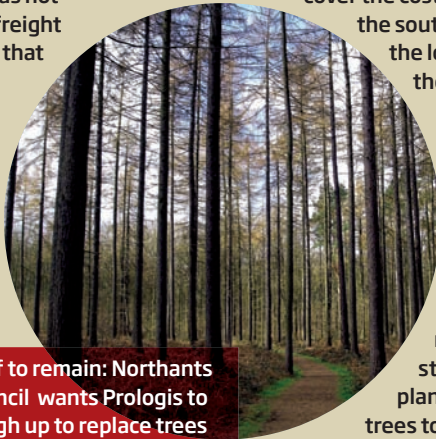
Aley adds that talks to settle the dispute before Christmas failed. Prologis offered to develop a smaller rail freight terminal for a lower payment. But Corby insisted that downsizing would need a new planning application.

Northampton County Council wants £2.5m to cover the cost of a new link road to bypass the south of Corby to accommodate the lorries that would drive to the rail freight terminal.

The borough council wants its contribution to cover the cost of replacing the forest that Prologis uprooted in its preparatory work.

The terminal will be built on the site of a redundant steelworks that was restored to its preindustrial state. When Corus closed the plant in the 1980s, it replanted trees to give the appearance that the site was part of Rockingham Forest.

Prologis did not return calls, but local industrial agents who know the scheme say the developer had re-costed the project to discover that projected yields from a completed scheme no longer made it viable. ■



Leaf to remain: Northants council wants Prologis to cough up to replace trees



Substitute: TDG took South Marsden Park space after subletting at Keypoint

TDG parks up with Honda in Swindon

TDG finalised the deal last month to take space in Swindon to make car part deliveries to Honda, even though it has been in occupation under a "tenancy at will" agreement since April.

The delay was caused by protracted negotiation on the legal agreement.

TDG took 89,412 sq ft at Broadmoor Road, South Marsden Park, five miles north of junction 15 of the M4 on a sublease from Telereal Trillium at £463,000 a year. TDG has a sublease until July 2012, although Telereal Trillium's lease does not expire until 2015.

TDG took the sublease, having sublet its own Honda-related unit – a 175,000 sq ft distribution depot at Keypoint, an industrial park close to Honda.

In November, TDG also took a sublease of the 180,000 sq ft on the former Early Learning Centre distribution depot in South Marsden, which was surplus after its takeover by Mothercare.

Now TDG is distributing toys for 50-strong toy chain the Entertainer and paying £6/sq ft.

Lambert Smith Hampton and Loveday & Loveday acted for Telereal Trillium. ■

A strong result for Goodman at Hinkley

Armstrong Logistics has taken a 15-year lease on a 96,500 sq ft logistics unit at Hinkley Commercial Park on junction 1 of the M59, near Leicester.

It will pay landlords Goodman and Scottish Widows Investment Partnership £5.50/sq ft.

Goodman UK Logistics bought the 650,000 sq ft park in 2004, and spent £12m on infrastructure improvements.

Jason Dalby, managing director of Goodman UK Logistics, says that because there is only one unit unlet, the way is paved for the planned development of the second phase of 120 acres.

Armstrong distributes mainly to retailers. Its operations director, Andy Tallis, says the new facility enables the company to consolidate its distribution service.

Savills and North Rae Sanders acted for Goodman. ■

CBI predicts upturn in output for Q2

The Confederation of Business Industry predicts a pick-up in growth in UK manufacturing over the next three months.

The CBI's monthly Industrial Trends survey, published last Thursday, says export orders continue to improve, thanks to the ongoing weakness of sterling and strengthening global demand.

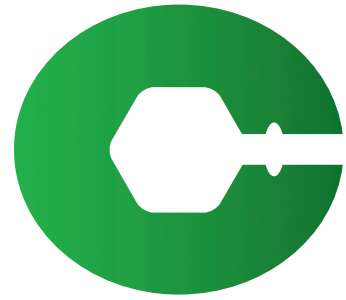
But despite the positive outlook, agents are sceptical about whether increased productivity will result in occupiers taking more warehouse space across the UK.

"Although it is positive that manufacturers are increasing production, if they are simply increasing their output it won't necessarily result in them taking more space in the UK," says Andrew Gent, partner at industrial agency Gent Visick.

Even if they do start to increase the amount of space they occupy, difficulties will ensue as development in recent years has been geared towards distribution rather than manufacturing, says Gent.

"This means the large number of empty warehouses on the market may not be suitable for their manufacturing or factory needs," he says.

For example, Rolls-Royce is investing £300m in designing and building its own 200,000 sq ft engine plant facility in Washington in 2012, rather than taking existing space. ■



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MARK WEBSTER



Owners could revert to type

Yes, you have heard it all before from many commentators, but just once more for the record, 2009 was a nightmare year for commercial property agents. However, it was really “a game of two halves”. Our research showed that take-up in the second half of 2009 was 350% up on the first half. This was almost exclusively because of what I have termed the “big bang theory”. With the development pipelines turned off and developers desperate to shift their ever-more costly void buildings, there were some eye-wateringly attractive deals offered to occupiers to take flexible lease terms on good-quality buildings all across the country. Many developers, occupiers and agents finished 2009 thinking that it wasn't all bad.

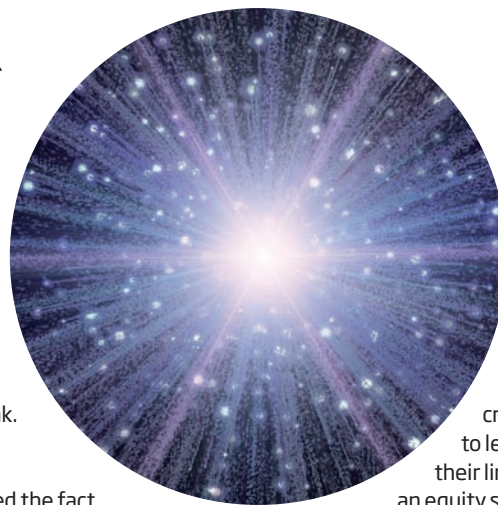
But there is a potential sting in the tail. Nothing more has been built and more occupiers are climbing on the acquisition bandwagon – but opportunities are few and far between. As always, competition is fierce for prime modern sheds. While occupiers are flush with the news of flexible, low-rental deals that their competitors took during 2009, and they expect the same on these last remaining buildings,

some building owners think the “worm has potentially turned” and their occupier-friendly face of 2009 could revert to a “take it or leave it” grimace. It is like a Mexican stand-off, with each side waiting for the other to blink.

Glad to be grey

Building owners should heed the fact that there is a vast amount of “grey space” available to tide occupiers over in the short term. Third-party logistics providers are only too keen to replace contracts from retailers that have failed in the past 18 months, and the opportunity to stop and consider alternatives by occupiers will ultimately result in more build-to-suit activity during the year.

Faced with developers' assertions that only a minimum lease term of 15 years is fundable, the occupiers' analysis of buy versus lease becomes far more marginal. So we believe there will be more joint



ventures and freehold “turn-key” deals. Developers will take development management fees on expensive land holdings to reduce debt and to keep things ticking over. Or occupiers with business-critical acquisitions will plan to leverage their covenant, use their lines of borrowing to take an equity stake in the deal, and then exploit the hardening investment market.

With prime warehouse yields rising 275 basis points from August 2007 to June 2009, before falling 150 points by December, there is improvement to come.

But as long as both sides of the table approach negotiations openly and do not look to point score, deals will continue to take place – providing that the election doesn't result in everyone treading water.

Mark Webster is partner and head of national logistics and industrial at Cushman & Wakefield

ALAN CARSWELL



Market rent issues may cause conflict

At the end of 2009, the consensus for the sheds market appeared to be that signs of stabilisation had begun to emerge but recovery was – and still is – some way off.

Despite cost-cutting continuing to be a key component of most average sheds occupiers' strategies over the coming year, this will now be tough for many if it is not to limit future capacity to recover.

Broader business reviews will lead to change and it is this that will drive the ongoing cost reductions. The consolidation of warehouses is one such example, as occupiers strive to improve their supply-chain metrics and cut costs. There is evidence of this in the market, led in particular by retailers, with at least one instance of occupiers competing for an existing building.

At this stage in the cycle of recovery, mergers and acquisitions activity will rise. Businesses can see signs of stability, so the downside risks of acquisitions are reduced.

Consolidation in this way creates synergies and improves margins. Consolidation, by whatever means, will create activity

for the real estate markets, but is unlikely to produce significant growth in terms of the total space occupied.

Businesses that are able to get into the market now will achieve attractive deals on existing space, but it is not clear how quickly the better-quality stock will take to be fully let.

M&A activity

The capital markets are unlikely to recover sufficiently this year, so new buildings will probably be available only to occupiers that are a good covenant on long leases. So occupiers that do not act early will have three options: accept longer leases; wait for the capital markets to recover to obtain the lease structures they want; or build their own and seek to do sale and leasebacks in the future. In all three cases, time will be a key factor in ensuring real value.

But empty rates will continue to have a bearing on the market and may lead to short-term low-cost deals to mitigate the costs of this tax. This could lead to conflict between landlords and tenants over “market rent” issues.

Alan Carswell is head of the landlord and tenant committee at Black & Decker and of the UK chapter of CoreNet Global

Cost-cutting will be tough if it is not to limit future capacity to recover

RICHARD SAINT**Food retailers are the only ones eating away at the supply**

I envisage 2010 as the year of the “living dead”, with the global businesses in our sector sustained solely by the life-support machine that is the Bank of England’s low interest rates. Compare this with my time at Gazeley, when we awoke to Black Monday and interest rates were climbing to 15%. There was nowhere to hide, and the banks were pursuing administration as the policy of choice for their bad debtors.

With just a few exceptions, this didn’t happen in 2009 and hasn’t yet in 2010. It would have been better for the industry if it had: flicking the switch would have created an obvious nadir in the market cycle and allowed a more realistic base from which to rebuild.

Some argue that yield compression is an important sign that the market is correcting itself and that we are returning to normality. It is true that yields have recovered about 80% of the ground that they lost. It is also argued that a huge swathe of the speculatively developed empty stock has been swallowed up. This is also true, but don’t be fooled into thinking this is a sign of occupier confidence. It is more a factor of the global operators realising that the thing that nearly sank them – their huge spec building programme – is their only life raft in this market.

It doesn’t take much rental income to cover interest at prevailing rates and thereby satisfy corporate bondholders that cashflow has stabilised. The problem is that most of this

stock has been let on terms that equate to an industry-sponsored scrappage scheme. But when it’s time to place a value on the investment, a five-year lease with a three-year break isn’t going to amount to much.

Independents’ day

I see the future as a time for the independents but even then, 2010 will present a stern test. Demand has improved – and for that we developers are very grateful. But this is so heavily skewed towards the food retailers that it is easy to misinterpret the recovery.

In 2009, Colliers found that more than 50% of speculative design-and-build deals came from this sector. Further impetus will be given as they aim to expand their non-food retail and internet home delivery, and expect to double turnover by 2014, reports research company IGD.

But if anyone is well placed to sweat the procurement process, it is the food retailers. And unless developers can demonstrate that they are giving at least 20% better value, they will transact elsewhere – and so they should.

If such historic institutions as the navy and army are considering merging to save costs, and the police are looking to bring in civilians for the same reason, we also have to register that our industry needs to change to survive. Buying time and tinkering just won’t cut it.

Richard Saint is head of Bericote Properties

Sea change: our sector may have to follow lead of navy and army in finding ways to cut costs

**IAN WATSON****Tough questions about ‘cheap’ stock**

Last July, Hansteen Holdings raised about £260m of new capital, primarily to take advantage of industrial property investment opportunities in the UK. The source of the stock was the unit-linked funds that faced significant redemptions, as well as over-indebted public companies such as Segro, Workspace and Brixton. We envisaged that this would be augmented by the huge amount of property under the effective control of the banks.

In fact, before we could deploy the new capital, the investment market in our sector performed a sudden U-turn. Major capital inflows have turned the unit-linked funds from forced sellers to forced buyers, while public companies have recapitalised and no longer regard themselves as forced sellers. The banks have, in the main, turned a blind eye to loan-to-value breaches.

As a result, the second half of 2009 was remarkable for the limited amount of industrial investment property on the market, and its strength, in terms of the number of bidders and the price of sales taking place. This strength, at least at the bidding stage, was evident throughout the quality spectrum, with even poor secondary and tertiary portfolios going under offer at strong prices. Perhaps I should define “strong prices”. Simply because an industrial property

Public companies no longer regard themselves as forced sellers

or portfolio goes under offer at a high initial yield, it does not mean that it is cheap. The devil is in the detail. Does an element of the income come from a rental guarantee? Are there big single-let properties that pose a significant risk? What

is happening to occupancy and rents? Are units that become vacant relettable? Where are the capital values? What are the short-term capital expenditure requirements? What are the irrecoverables? Understanding the real value of industrial property requires consideration of all these issues and more.

Since I failed to predict the turnaround in the UK’s shed investment market in the second half of 2009, I hesitate to make a forecast. But I am confident that more stock will emerge this year, leading, in time, to a better balance of buyers and sellers and more realistic pricing. “Real economy” pain will become more manifest and cause further tenant failures and greater pressure on rents and values. But while interest rates stay low and the perception that we are in a medium-term low-growth environment prevails, demand for high-yielding industrial property will stay strong.

Ian Watson is joint chief executive of Hansteen Holdings



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INDUSTRIAL EVOLUTION

■ The recession has spawned a new generation of industrial property start-ups. Nick Duxbury reports

With gloom and inertia still hanging over the UK industrial market, it is easy to forget that 2009 was also the year of the entrepreneur. Until six months ago, no one had heard of Roxhill Developments, First Industrial Developments, M7 Real Estate, Cedarwood Asset Management, Centurion Industrial Asset Management, Altyon Investments – or indeed Dowley Turner Real Estate.

Established developers, property companies and agencies have watched as the next generation of competitors emerges from within their own ranks – long-nurtured talent and the grey hairs of experience their main currency.

As *Property Week* illustrates (right), these firms have been born from the same, small, pool of shed heads. In fact, this pedigree can be traced back to one company, Kingspark, which was set up by John Cutts in 1993.

After it was taken over by Prologis – formerly Security Capital Industrial Trust – in 1998, names such as Alan Curtis, David Keir, Ken Hall, Steve Ferris and Richard Saint have since gone on to spawn the start-ups of each successive downturn. Now, from this pool, some new competitors have joined them.

DEVELOPERS: FIRST AMONG EQUALS

The first new industrial shed developer to emerge from this property cycle was First Industrial – a company, like so many before it, that has emerged out of US developer Prologis.

It was set up by former Prologis development director Matthew Byrom and global managing director Ken Hall in November. As revealed by *Property Week* (20.11.09), the pair led an 11-strong team with the backing of entrepreneur Terry Lister and private equity investors to develop design-and-build sheds in the Midlands, where it plans to carry out only carbon-neutral development.

This week former Prologis head of project delivery Fergie Taylor and development associate Oliver

Bertram have started work at First Industrial's Solihull office. The company has already formed its first joint venture with Clowes Developments on the 111 acre, rail-linked East Midlands Distribution Centre site that Clowes bought from Wilson Bowden Developments in December 2008. It is understood to be the frontrunner, ahead of established developer Prologis at DIRFT II near Daventry and Gazeley at Crick to land the largest prelet in the country – a 900,000 sq ft facility for Marks & Spencer – on the site.

First Industrial would not comment on the deal or any of the other joint ventures it has planned. However, Byrom hopes the company will be differentiated by its approach in which it considers itself a “service provider”, rather than a client.

“After 10 years we wanted to work in a more niche business,” he says. “As a team we have become known for a particular style of business. And we have found ourselves in a market we understand.

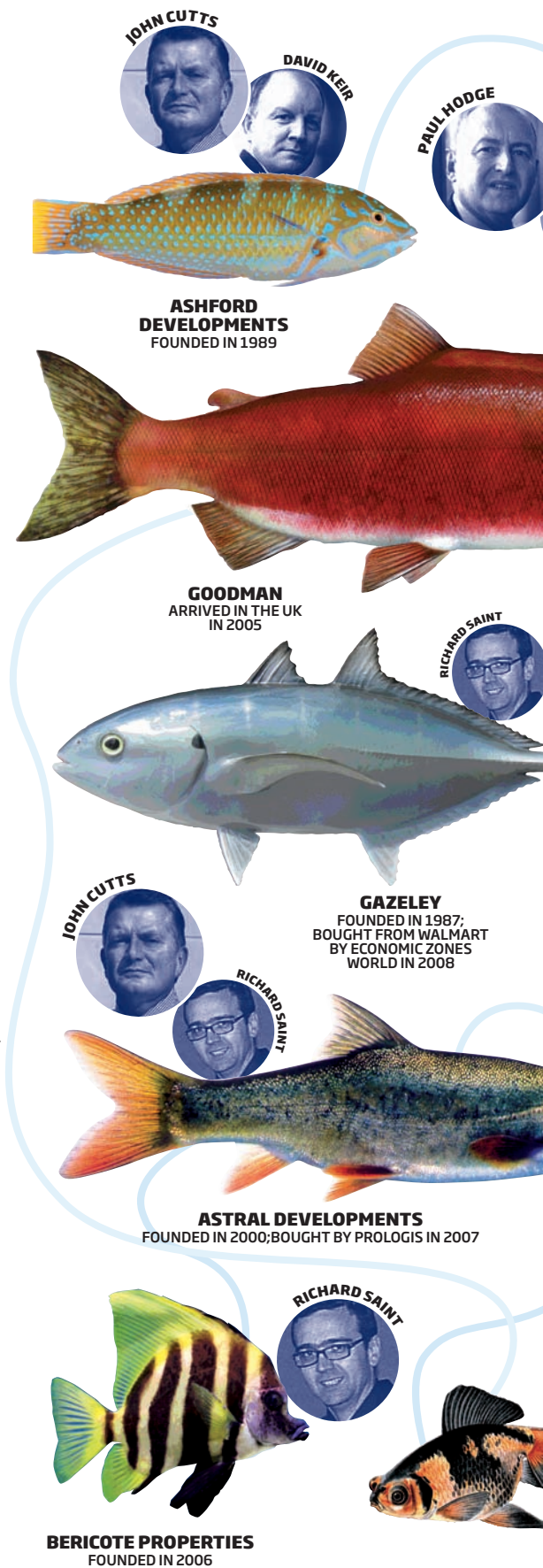
“For most investors, speculative development will be as appealing as considering a tequila slammer for breakfast after a big night out.”

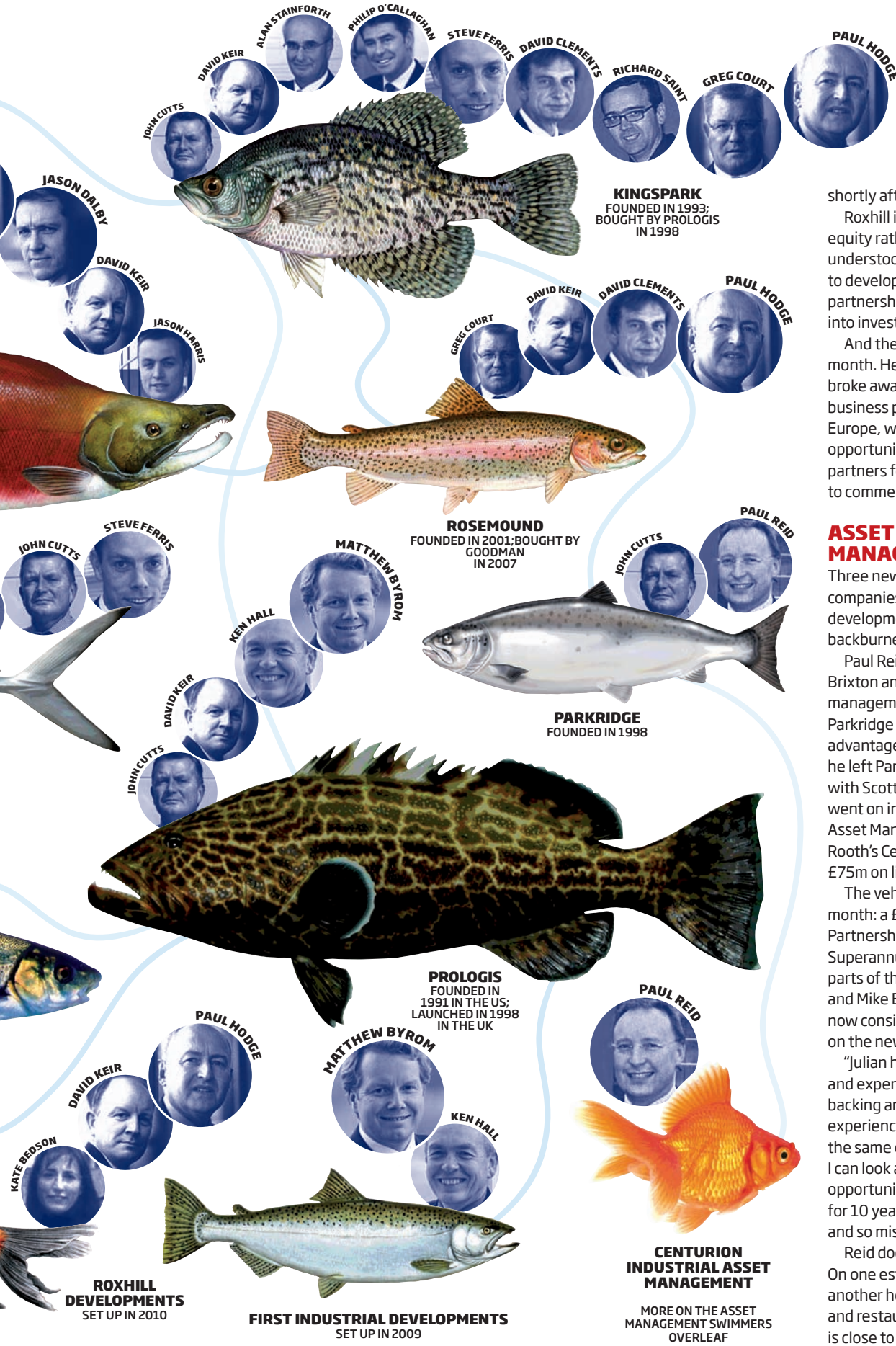
Taylor adds: “2010/11 will be best characterised by competitive, low-margin build-to-suit development. However, this is an area in which we feel best able to compete.”

They certainly will have to compete, as other old development hands are also sensing opportunities in the development market. David Keir, co-founder of Ashford, Kingspark and Rosemound, last month left Goodman to undertake his fourth start-up. Until then he was executive chairman of UK logistics at Goodman, which bought Rosemound in 2007. With former Goodman logistics finance director Hodge and Kate Bedson, former vice-president for development at Prologis, he has set up Roxhill.

The company is contractually restricted by Goodman on the type of transactions it can carry out for the next two months. However, it has set up an office at Lemonics House at Swift Valley in Rugby and expects to undertake its first schemes

EVOLUTION OF DEVELOPERS – WHO WORKED WHERE





shortly after the “lock-out” period has expired.

Roxhill is funded with Keir and Hodge’s own equity rather than by external backers. It is understood that instead of buying a land bank to develop, Roxhill plans to form joint venture partnerships with landowners. It may enter into investment deals as well as developments.

And the recession spawned another start-up last month. Helios Properties co-founder Mike Hughes broke away from the company and his longstanding business partner, Trevor Cartner, to set up Helios Europe, which will focus on European development opportunities. Hughes is looking for funding partners for his new venture and declined to comment on his immediate plans.

**ASSET MANAGERS/INVESTORS:
MANAGEMENT BUY-UPS**

Three new investment and asset management companies have started on the premise that development, as a money maker, is on the backburner, but asset management is in demand.

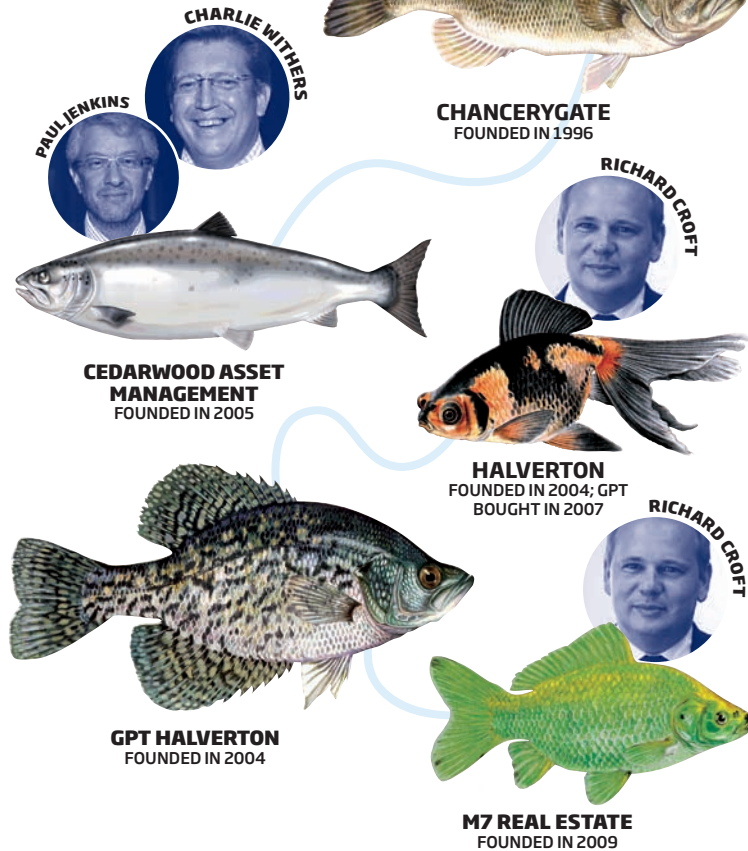
Paul Reid, former development director at Brixton and Equity Estates, started up an asset management division at the beginning of last year at Parkridge – Parkridge Asset Management – to take advantage of this. Then, in June, with Cutts’ blessing, he left Parkridge and agreed a spending mandate with Scottish Widows Investment Partnership. He went on in September to form Centurion Industrial Asset Management, a joint venture with Julian Rooth’s Centurion Properties, which has spent £75m on light industrial estates since the summer.

The vehicle made its debut purchase in the same month: a £41m subportfolio from the Equiton Partnership that was sold by Universities Superannuation Scheme. Since then, it has bought parts of the Industrious portfolio from Nick Leslau and Mike Brown’s AIM-listed Max Property. It is now considering development opportunities on the new estates to increase their value.

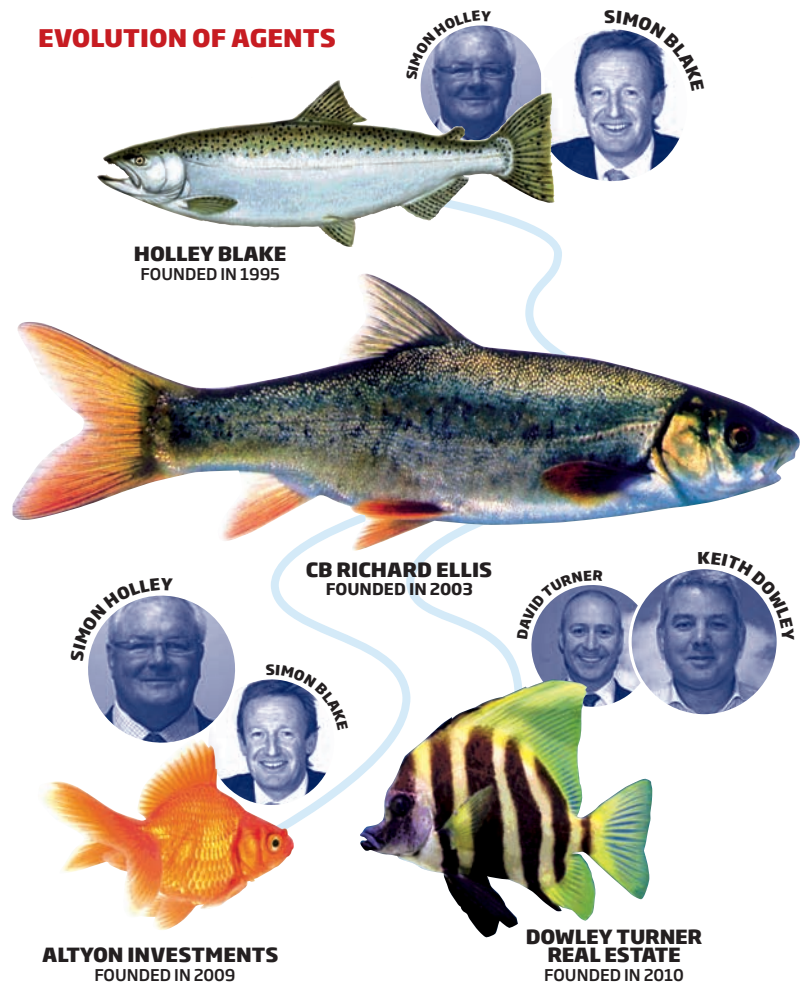
“Julian had the asset management platform and experience, and I brought Scottish Widows’ backing and development and asset management experience. The Equiton properties we bought were the same ones I managed when I was at Brixton. I can look at those and see so many development opportunities to add value. They had these estates for 10 years but had a dry asset management remit, and so missed the more entrepreneurial elements.”

Reid does not intend to make the same mistake. On one estate he plans to build a food store. On another he is negotiating to bring in a hotel operator and restaurants. And there is a vacant shed that he is close to buying and letting to a supermarket. »

EVOLUTION OF ASSET MANAGERS AND INVESTORS



EVOLUTION OF AGENTS



« Centurion Industrial Asset Management has agreed terms on two more estates in more regional locations as Reid says the south-east market has become too expensive, and intends to have spent £150m by this time next year.

One of the first start-up asset managers off the blocks was Richard Croft's M7, which was launched last April. Having left asset manager Halverton, which had been bought by Australian GPT Group and has now been taken over by Jos Short and Andrew Thornton's Internos Real Investors, Croft set up M7 and secured backing from Europa Capital.

Their joint venture is called the Light Industrial Property Partnership and can buy up to £130m of multi-let light industrial estates. So far, Croft has spent around £30m, and M7 is now buying a portfolio of larger industrial sheds from UBS's Triton fund and is understood to be doing so with equity from new backers.

Charlie Withers and Paul Jenkins, both former directors at Chancerygate, have also started up a company to buy light industrial estates. After leaving Chancerygate as part of a restructuring of the company in June, they set up Cedarwood in September (above, left). The pair have agreed to launch the Tritax Industrial Opportunity Fund with private investor syndicate Tritax. Cedarwood

will be the asset manager for the fund, which is raising up to £50m of equity and could, with gearing, have £140m to spend.

The third new fish in the asset management pond is Rhys Lewis. The former principal at Rockpoint left the company in May to set up his own vehicle, Anglesea Capital, which was named after his local pub in west London, the Anglesea Arms.

AGENTS: FINDING FUNDING

Industrial specialist agency Holley Blake, which was bought by CB Richard Ellis in 2006, has spawned two new businesses. First to leave were CBRE agency stars Keith Dowley and David Turner, who this week ended their garden leave and opened up shop in Mayfair as Dowley Turner Real Estate (above, right). The pair have made four hires and leased a 1,700 sq ft office at 106 New Bond Street. Their new firm will specialise in industrial agency and investment, but will look towards the south-east office market next year and possibly cross over to the retail warehouse market after that. The term "real estate" in their company name

betrays their international ambitions.

"It is almost as if the Holley Blake gap was never refilled by any other agency," says Turner. "We like to think that the investment advice we can give is

backed up by the agency side – the two elements are complementary of each other."

Both Dowley and Turner anticipate a return of the build-to-suit shed development market over the next year, and are positioning the new firm to take full advantage of the business that could bring.

"We will specialise in sourcing development funding," says Dowley. "This year and next there will be a big question hanging over how to fund schemes. People will need ingenious funding sources. We have a good track record of finding them."

Speaking to *Property Week* from their temporary office, a Mayfair cafe, a few weeks before they are allowed to open up shop, neither of them have worn a suit in months, but it is evident that both are desperate to get back into the market.

"Our time at CBRE was great, but you can't really beat doing it yourself," says Turner.

A five-minute walk around the corner from Dowley & Turner is Altyon, set up by their former CBRE colleagues, Simon Holley and Simon Blake, who were also the founding partners of Holley Blake. Unlike Dowley and Turner, the pair decided to move buyer side and raise equity for a new fund to invest across all sectors.

From offices at 22-23 Old Burlington Street owned by John Cutts, they have raised £300m from Dubai fund-of-fund investors and are looking at investing across the property sectors and in strategic land. ■

People will need ingenious funding sources
Keith Dowley

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BUSY AS A B2

■ Manufacturers are the unexpected benefactors of the depressed market. **Christine Eade** reports

B1, B2, B8" is the industrial agents' mantra when marketing sheds.

There is a small part of B1 office space in every industrial development.

The letting agent assumes the incoming tenant will operate under a B8 distribution and storage consent for most of the shed.

"B2" is least promising from the agent's point of view. But this year's deals have revealed a resurgence in manufacturers who want to work under a B2 light industrial consent.

Buildings – from new speculative development to 40-year-old sheds – are achieving the unexpected and being taken up by manufacturers.

Sometimes, as output increases, the occupier needs more space for an industrial process. It can no longer use part of the factory premises for storage and distribution, so it takes more storage space.

Agents' research departments do not record separately the lettings and freehold sales to occupiers who work under a B2 consent. Manufacturing take-up is included with storage and distribution statistics.

Property Week meets three manufacturers that are not just creating British products but also making hay while the sun shines on reduced rents and falling freehold values.

LUCKY SEVERN: WINDS OF CHANGE IN SOUTH WALES

Everyone likes to be part of a good news green story. On 28 January, Mabey Bridge, a company that manufactures bridge components, announced its diversification into making wind turbine towers for both land and sea.

To achieve this, it paid £13m for a 182,506 sq ft speculatively developed shed and surrounding 18 acres on Newhouse Farm Distribution Park in Chepstow.

Mabey has applied to Monmouthshire County Council to double the size of the facility, which is near the M48 Severn Bridge and will accommodate 240 workers.

"The investment goes against the decline in the manufacturing sector and will put south Wales at the heart of the move towards a low-carbon economy," says managing director Peter Lloyd.

Peter Hain, the Welsh secretary, says it would have a significant impact on the south Wales economy.

No one mentions that parent company Mabey Holdings, which forward-funded the £38m project, had benefited from a buyers' property market. Frontier Estates and the Royal Bank of Scotland completed speculative development of what was marketed as a warehouse and distribution property near the M48.

It had been empty for 18 months, and Frontier

was no longer in the picture as it saw its share of the profit disappear because of falling values. It was up to RBS to dispose of the scheme as quickly as possible, through agents Lambert Smith Hampton and DTZ.

The £13m freehold sale was described by an



PHOTOGRAPH: AMANDA SLATER

industrial agent not involved in the deal as "cheap, but not an absolute steal".

Rob Russell, industrial director in DTZ's Bristol office, disagrees. "From a property point of view, it was a fantastic deal. But from RBS's point of view, I doubt if there was any money to be made out of the deal. They held out for that sort of price.

"Industrial land in that part of south Wales was valued at £300,000 an acre. But the open market value now is £150,000. With the sale price of £13m, that breaks back at £60/sq ft." »



Definitely Mabey: facility near M48 Severn Bridge was empty for 18 months before turbine part maker signed up

MIX USE: DRUG MAKER FINDS RIGHT FORMULA IN ESSEX

If the logistics unit on Josselin Road, Burnt Mills Industrial Estate, Basildon, Essex, is famous for anything, it is for being the second commercial property ever bought by Alan Sugar, long before he became Sir Alan or Lord Sugar.

Through his property company, Amsprop, Sugar was looking for a new tenant for the 107,160 sq ft 40-year-old shed. It had once been the depository for the Southend department store, Keddies, which closed 15 years ago.

More recently, the shed was leased to logistics tenants such as Christian Salvesen and TNT.

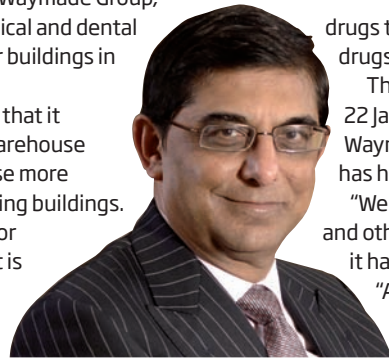
The quoting rent was £4.75/sq ft. But as letting agent John Porter, a partner in Frankis Porter, points out, this was optimistic in a world of falling rents coupled with the imposition of empty business rates.

Salvation came to Sugar from the Waymade Group, a manufacturer and importer of medical and dental products. Waymade already had four buildings in Basildon that totalled 120,000 sq ft.

The company is expanding so fast that it bought the freehold of Amsprop's warehouse for storage and distribution to release more space for manufacturing in the existing buildings.

Although neither Frankis Porter nor Waymade will reveal the sale price, it is likely that it is no more than the site value covered by the shed.

Waymade distributes branded



drugs through Amdipharm and generic drugs through Sovereign.

The purchase completed on 22 January. Now Bhikhu Patel, Waymade's managing director, has his work cut out.

"We will need planners, architects and other specialist people, because it has to be energy friendly," he says.

"A lot of work has to be done, because we are a highly regulated business.

"But ultimately, it will become our distribution hub. We have a huge volume of stock and we need the space."

Part of the manufacturing that takes place in Basildon is the production of generic drugs. Patel cites the example of preparing prescription ointments by mixing three parts of one product to one part of another.

"This is going to take more laboratory space," Patel adds, "and we are also going to add more lines and go into new markets. And so the new building will be used primarily for storage."



COVA STORY: CRAWLEY PROVIDES SAFETY IN NUMBERS

In the 23 years since Cova Security Gates began manufacturing, the world has become a more dangerous place.

So dangerous, in fact, that Cova supplies electronic gates for British embassies overseas, the Metropolitan Police, the BBC, banks, including Goldman Sachs, and companies such as GlaxoSmithKline and Disney.

With so many organisations needing its protection, Cova will relocate the manufacture of steel electronic gates from Horley in Surrey to Sussex Manor Business Park in Crawley.

In December, Cova signed a 15-year lease with Propinvest for 22,000 sq ft, where it will move in May or June and pay £6.75/sq ft.

"This is 10 times bigger than we had before,"

says Cova's sales and marketing director, Jeremy Tettmar. "Our clients include police stations, embassies, atomic weapons establishments, Ministry of Defence premises – anything that needs a high level of security."

Tettmar says that now its existing lease has come to an end, the machine tools used to make the steel gates will be moved. There will be little change to the building as production will be housed in an open-plan manufacturing plant.

Cova's new plant is the smallest of three Sussex Manor units that Propinvest asked agent M3 to let when the units were refurbished after the leases expired. The previous tenant was Sugg Lighting.

M3 partner, Charlie Howard, says that there is interest in the largest unit of 70,000 sq ft, which can be used equally for storage and production.

These three case histories form a microcosm of modern life: we increasingly need renewable energy, medication and security.

As long as there are empty speculative sheds and vacated secondary industrial property, there is a chance that the manufacture of such products will remain in the UK. ■



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Logistics is a cost-sensitive business. The chief selling point for the distribution companies that offer warehousing and transportation services is that they can do the job more cheaply than their clients, the retailers and manufacturers.

Those clients, battered by the recession, are now exerting pressure on third-party logistics operators (3PLs) to drive down costs in a business that already has a tight profit margin. The impact on warehouse property has been swift.

"There has been a massive curb on costs and risk among 3PLs," says Nick Weetman, managing director of supply chain consultant Davies & Robson. "They have taken the axe to their operating costs. With regard to property, avoiding risk is the aim of the game. They might once have viewed property as an asset – now it's a liability."

King Sturge data show that logistics operators accounted for 30% of take-up of 100,000 sq ft-plus warehouses in 2008, equating to 3m sq ft. In 2009 they took half that – or 23% of the total.

Some operators have lost business as retailer clients such as MFI and Woolworths have collapsed into administration. Meanwhile, the cost of holding empty property is an issue because of the removal of business rates relief on empty industrial buildings.

Weetman says many small operators have gone to the wall and more will follow this year.

The larger multinational operators such as DHL, Ceva and Wincanton have weathered the storm.

"It's easier to handle empty rates the bigger you are because you have more customer contracts to spread across your property portfolio," explains Lisa Fitch, an associate director in supply chain consultancy at BNP Paribas Real Estate.

The mid-sized companies are as much subject to cost pressures as their larger and smaller peers. But the weakness of the property market means they have an opportunity to acquire better warehousing at a much lower cost.

Alastair Newman, group property manager at Manchester-based logistics operator TDG, says that, although the focus is on consolidating and cutting costs, the recession actually helps with expansion.

"Ourselves and our customers are seeing a situation where there are opportunities to do good deals on warehouses for a longer-term strategic buy," he claims.

Newman says venture capitalist Laxey Partners'

takeover of TDG in July 2008 has led to a focus on extracting value from its property portfolio. TDG is considering consolidating several facilities into a 400,000-500,000 sq ft distribution centre.

TDG has also carried out sale and leasebacks. In September it sold a 330,000 sq ft warehouse in Glasgow to Ropemaker for £17.1m.

Mike Flynn, business solutions director at Hampshire-based chilled and perishable goods distribution specialist Gist, also sees opportunities.

"There is more availability of big, but not mega-sized, buildings on shorter leases," he says. "We have added on some new space on relatively short leases. It appears that some landlords are becoming very aggressive in offering good terms – the changes to rates have motivated them."

However, he says Gist's approach will still be cautious:

"The value of the product we are distributing has gone down in some cases. We moved a similar volume of flowers for Valentine's Day this year as we did in 2009, but it seems that the gentlemen have traded

down to the service-station variety, so there is a lot of pressure on margins."

He adds that Gist must respond more quickly to changing customer needs, so its commitment to any given property needs to be shorter.

Short fuse

The lack of flexibility in the UK's leasing system has long been a gripe among logistics operators. It makes little sense for them to take on a standard institutional lease of 10 to 15 years, when most customer contracts only last for three to five years. Empty rates and the risk of client bankruptcy has exacerbated the problem.

Brian McDill, operations and solutions director for French logistics operator Norbert Dentressangle, which has 300 sites in 14 European countries, says: "At the moment we would only take on new properties as opportunities for new business arise – and then only for the duration of the contract."

In this respect the property crash is a boon to operators, as landlords are more likely to offer short-term leases to avoid empty rates liabilities.

Operators are also increasingly unwilling to spend on fit-out. Heating, lighting, racking and sprinklers can cost hundreds of thousands of pounds.

"Mid-sized 3PLs are targeting secondhand buildings that have already been fitted out," says

You can get good deals on secondhand property and new unlet property

**Philip Stephenson
Davies Turner**



Trucking marvellous (clockwise from above): Norbert Dentressangle, Stobart at Gladman's Manor Park Runcorn and Howard Tenens, which has signed up at Gazeley's Voltaic in Dagenham, are in strong negotiating positions, thanks to the recession



DRIVING A HARD BAR

■ Third-party logistics operators are being squeezed by their retail customers, so they are turning the screw on landlords. **Stuart Watson** reports



Jeremy Greenland, a director at developer Evander Properties, which manages US investor Rockpoint's portfolio of 15 distribution sheds in the UK.

"It all seems to be about capital expenditure at the moment. When you're trying to lease speculative space, they want a big capital contribution and they don't really want to spend that on the fit-out."

Landlords with speculatively developed buildings on the market are now more likely to provide a fit-out to attract an occupier and avoid rates bills.

"Before the landlord would have added the cost of fit-out to the rent," says Fitch. "Now they are just providing it in order to compete with the secondhand market."

Buyers market

Philip Stephenson, chairman of Midlands-based logistics operator Davies Turner, says in the past it tended to commission purpose-built facilities. In this market, however, if it needed to expand, it would consider buying or leasing an existing building.

"You can get very good deals on secondhand property and new unlet property," he observes.

Weetman claims that in some cases operators are trying to take advantage of the market to trade up to new buildings that they would not previously have been able to afford. Howard Tenens signed up to Gazeley's speculatively developed 232,965 sq ft Voltaic shed in Dagenham in January, and last September logistics operator Stobart Group took Gladman's 367,861 sq ft shed at Manor Park, Runcorn, to service a contract for Johnson & Johnson.

"There are bargains to be had," says Stobart commercial director Richard Butcher. "We have seen a lot of buildings around Yorkshire and Lancashire with a view to purchasing or just driving a hard bargain on rent and a rent-free period."

Newman says the terms available led to TDG taking a 175,000 sq ft distribution centre in Swindon in September to provide warehousing for toy retailer, the Entertainer: "We took that building at effectively half rent. That drove a change in location. We were originally looking further east," he reveals.

However, lease terms are not the only factor.

"How important rent is depends on the nature of the solution you are providing to your client – whether it is storage or transport-orientated," says Flynn. "[In the latter case] location can be much more important."

Weetman foresees another "very tough" year for third-party logistics operators in 2010. However, for those operators that ride out the recession to emerge stronger, the conditions for acquiring property have rarely been more favourable. ■

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HUNGRY FOR MORE

■ Institutions are under pressure to spend but there is little to satisfy their appetite. **Aditi Shah** reports

The second half of 2009 was characterised by an upswing in investment across all commercial property, and the sheds sector was no different.

Investors splashed out close to £900m on the 10 biggest industrial investment deals in 2009, King Sturge reports (see table, overleaf). This momentum continued into 2010 and a total of £200m has changed hands so far this year.

This renewed interest has sparked a bidding war for assets put up for sale, resulting in rapid yield shifts (see graph, overleaf).

This is largely fuelled by institutional investors such as Legal & General Property, Scottish Widows Investment Partnership and Prupim, which are under pressure to spend the vast amounts of money going into their open-ended retail funds. The Association of Real Estate Funds pooled property funds raised a record high of £3.2bn in the fourth quarter of 2009.

Highcross, the fund manager and property investment company, says it is struggling to deploy the £1bn Fund III raised in 2008 to invest in industrial assets. It has three years left to spend it.

James Beresford, director at Highcross, says: "We are looking for assets that are higher up the risk curve and need asset management. But we feel that at this point institutional investors' appetite for risk has also grown and as a result our basket of deals is being squeezed."

He says Highcross has looked at all portfolios that have been marketed over the last six months but has not made a purchase.

"In the areas we are looking, we have not seen a decent portfolio come on to the market since the back end of last year. We don't want to invest in high-competition areas and will steer clear of the south-east because most funds are already investing there," he explains.

Earlier this month Prupim bought a

It's a bit like late 2006, when there was a lot of money coming in
Jonathan Holland
Legal & General Property



Rainham in: Prupim bought Easter's shed at 7% yield

90,000 sq ft shed at Beam Reach in Rainham, Essex, let to logistics company Wincanton Data Records Management. It paid Easter Developments around £11m, reflecting a yield of 7%. As part of the agreement, Easter will extend the shed by 30,000 sq ft. Drivers Jonas advised Easter.

Legal & General Property is leading the pack of investment-hungry institutional investors in the south-east. Between September 2009 and January 2010, L&G has already committed £200m to sheds. It has agreed to forward-fund three distribution centres totalling more than £70m, and is considering opportunities for speculative development.

Jonathan Holland, director of the UK Logistics Fund at L&G, says there is a large ball of money waiting to be deployed.

"It's a bit like late 2006, when there was a lot of money coming in," says Holland. "The difference is that the opportunity is not great.

There is a shortage of good-quality assets and the definition of prime has widened. Investors are prepared to take more risk – not necessarily on the quality of the asset, but by buying property with shorter leases," he says. This may offer asset management opportunities.

Holland fears that prices may shoot up again.

"We are avoiding getting into that trap even if it means sitting on a pile of cash," he says.

Among L&G's most recent transactions is a forward-funding of two shed developments totalling £26m. It is looking for a margin on the build cost and has also built in a "risk premium" of between 50 and 100 basis points.

It has agreed to forward-fund a unit at Gazeley's 86 acre site in Crick, Northamptonshire, where the developer has outline planning consent for 1.4m sq ft of distribution space. L&G will pay £18m for a 260,000 sq ft shed that is prelet to pet food manufacturer FW Baker & Sons.

The second is developer Graftongate's 85,000 sq ft shed in Enfield, north London, which is let to retailer John Lewis's home delivery service. >>

« L&G will pay £8m, reflecting a 7.6% yield. It is also forward-funding Goodman's 467,000 sq ft in Andover, which was granted planning consent earlier this month. The shed has been prelet to the Co-op Group and L&G is believed to be paying £47m for it, reflecting a yield of 6.5%.

Paul Edwards, director and head of the Industrial Property Investment Fund at L&G, says that its decision to dive into forward-funding was to enable it to diversify its portfolio.

"Some funds have acquired assets that have voids or short leases. To balance the funds' exposure, it is good to have some forward-funding deals as it ensures that there is an element of the portfolio that is investing in 'risk-averse' assets," says Edwards.

In addition, Edwards says L&G has noticed pockets of undersupply, especially in north London, where it is considering opportunities to build speculatively.

Regional range

L&G's step to take more risk is a sign of the lack of investment opportunities in prime assets.

Giles Thomas, consultant on the industrial investment team at Drivers Jonas, says the development tap was turned off months ago and investors are being forced to squabble over the dregs that remain.

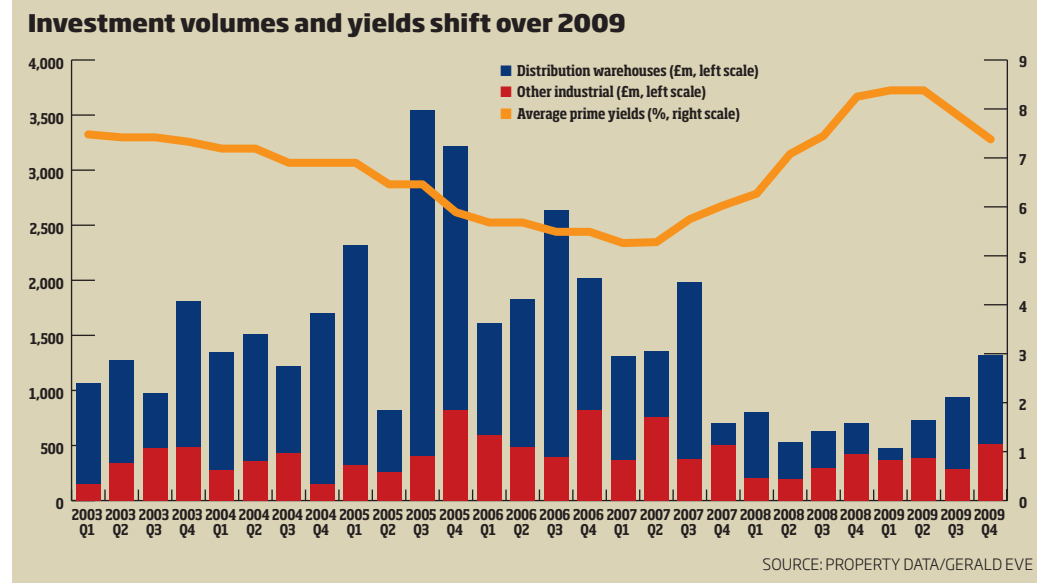
"There is a lack of product coming from the banks. There is no flood of opportunities from the Kenmores and Kilmartins of this world.

"Stock was expected to come in nine months ago. But sooner or later banks will have to sort out distressed owners and Segro will sell some of the Brixton assets," says Thomas.

Henry Angell-James, investment director at Graftongate, says the market is still uncertain.

"Last year was characterised by yields bouncing around. By the end of 2009 people were bidding their socks of things," he says.

"What we like is non-shiny buildings in shiny locations. We prefer short leases because it gives us more flexibility. We didn't buy anything



in 2009 because we didn't see any worth."

Graftongate is keen to find assets that require intensive asset management or redevelopment. It is willing to consider lots of £5m and upwards. For large transactions, it usually partners with an institutional investor.

Graftongate considered Valad's Industrial Investment Partnership portfolio that King Sturge started marketing in November 2009 at £55m. But Angell-James says it was unsuitable because it involved too many small estates spread across a very large area.

The portfolio comprises 34 small-to-medium-sized industrial estates spread across the UK and has a void rate of 20%. HSBC's European Active Real Estate Fund is thought to be buying it for £50m with asset manager Willowbrite.

"Top covenants and long leases are now just a small part of the market and there is a big question over the weak covenants and shorter leases. For buyers of secondary stock, there is thin debt finance available," explains Angell-James.

This disparity is evident in yield movements across the country. In the south-east, yields

have fallen from a high of 8.5% to a low of 6.3% in the last six months. However, in the Midlands and the north, industrial properties are still changing hands for double-digit yields.

This was evident with the sale of Swan Valley Park in Northampton in January. PMB Holdings sold the 331,568 sq ft shed, which is let to supermarket Morrisons, to Scottish Widows Investment Partnership for £27.52m, reflecting a yield of 6.73%.

PMB bought the building 10 months before from L&G for £21.5m – a yield of 8.2%.

However, Thomas says that, in future, investors are likely to prefer multi-let properties where one large tenant, such as DHL or Kuehne & Nagel holds a head lease and sublets to smaller occupiers.

"For the owner it reduces the risk of empty rates and there are higher chances of multiple tenants renewing the lease. But the challenge will be to find the right buildings to accommodate such requirements and this could take us back to the prelet world," he says.

But until such time, investors will need to keep churning the old stock and looking for forward-funding opportunities to keep the money moving. ■

2009's top 10 industrial investment deals

| Portfolio | Location | Date | Sale price | Yield | Buyer | Seller |
|--|----------------------------|-----------|------------|-------|---|------------------------------------|
| Industrious portfolio | UK-wide | October | £221.25m | 10.5% | Max Property | Ernst & Young |
| Equiton portfolio | South-east of England | September | £196m | 8.7% | Universities Superannuation Scheme | Equiton Group |
| Great Western Industrial Park | Southall | November | £110.4m | 7.1% | Universities Superannuation Scheme | Segro |
| Segro Industrial Portfolio | UK-wide | August | £103.75m | 10% | Canmoor Asset Management and Harbert European Real Estate Fund II | Segro |
| Brixton Heathrow portfolio | Greater London | May | £70.25m | 7.83% | AEW Europe, European Property Investors Special Opportunities | Brixton |
| Prologis Park | Greater London | May | £48.62m | 8.24% | Universities Superannuation Scheme | Standard Life Investments |
| Equiton subsales | South-east of England | September | £41m | 8.5% | Scottish Widows Investment Partnership | Universities Superannuation Scheme |
| M40 Industrial Estate and Western Avenue Business Park | High Wycombe and London | July | £34.28m | 8.7% | National Grid UK Pension Scheme | Segro |
| Iceland Distribution Centre | Enfield, London | December | £32.86m | 5.84% | Aegon | Aubrey Weiss |
| Steel Park | Wednesfield, West Midlands | December | £31.5m | 8.62% | Threadneedle Property Investment | Ashtenne Industrial Fund |

SOURCE: KING STURGE

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Build it and they will come," was the dominant philosophy among industrial developers as recently as two years ago. The recession changed all that.

When the development tap was turned off, the quantity of speculative space under construction in units of more than 100,000 sq m fell from almost 8m sq ft in March 2008 to zero in June 2009 (see graph, overleaf).

Now, after more than a year of extreme caution, increased demand from retailers, shrinking supply in some parts of the country and hopes that the economy is over the worst have raised the prospect that speculative development may be viable.

Some occupiers are returning to the party after a barren 2009. To secure a new lease at Legal & General's 460,000 sq ft Bedford Connect property in January, Sainsbury's had to beat competition from fashion retail group Arcadia.

Jason Dalby, managing director of Goodman UK logistics, says: "I haven't heard of a competitive position like that in the last 12 to 18 months. [The increase in demand] may be due to confidence or it may be to do with rationalisation of distribution space, but occupiers are beginning to plan for the future, rather than concentrating on survival."

Lettings go

Since the beginning of the year, occupiers have started to take a swathe of speculative sheds in the south-east. In addition to the Sainsbury's transaction, supply chain manager Howard Tenens has agreed to lease Gazeley's 232,965 sq ft Voltaic building in Dagenham and salad packaging firm Stubbins has taken Henderson's 177,000 sq ft Magnum 25 shed at Waltham Cross. Meanwhile,

AMB's 140,000 sq ft distribution centre at Binary Park in Dagenham is under offer to Wolseley Group subsidiary Encon and Propinvest's administrators are close to agreeing the sale of the 260,000 sq ft Mistral 260 in Hemel Hempstead to an unnamed occupier.

The supply of sheds is also beginning to diminish in the Midlands. Ranjit Gill, head of Midlands industrial for BNP Paribas Real Estate, says: "In the last few months there is 3.5m sq ft let, in lawyers' hands or close to being done in the Midlands. In 2011 there may be a need for someone to start development. Occupiers looking for 250,000-300,000 sq ft now only have a handful of buildings to look at."

Speculative building was once de rigueur. Developers argued that occupiers wanted their buildings fast and, to beat the competition, they had to be supplied ready made.

"People who have the balls to do it and are at the vanguard will do very well," argues Paul Farrow, head of industrial agency at CB Richard Ellis. "We are seeing the stock of new prime buildings eroding. Because the market has been bad they haven't been replaced. If there was ever a case to build speculatively, it is now."

One of the few to have developed speculatively in the recession is Canmoor, which completed a pair

of buildings in Park Royal, west London – the 62,000 sq ft Thunder and 106,000 sq ft Lightning – in November. Director Jules Benkert predicts a cautious return to speculative development around the capital by the end of this year.

"Developers will be tip-toeing back in with smaller units that appeal to a wide range of occupiers," he says. "We will consider developing speculatively, but on a highly selective basis, where we do our homework carefully and establish



that there is proven demand and no supply."

Benkert appears bullish compared with some other developers. Ian Sutcliffe, UK managing director of Segro, says that there is little chance of the country's biggest industrial REIT indulging in speculative development in the foreseeable future.

"Industrial vacancy nationally stands at something in the order of 18%, according to Investment Property Databank, so clearly

>>

STARVED OF SPECS

■ Despite a barren 2009 and signs of occupier demand, few developers are brave enough to start developing speculatively. **Stuart Watson** reports



Bellwether: Canmoor is testing market appetite with Thunder and Lightning (top), while Arcadia lost out to Sainsbury's at Bedford Connect

“the economy is still quite challenging for industrial occupiers and not desperately conducive to speculative building,” he argues. “In the next two years, it’s tough to see us speculating at all, except for the smaller units where you don’t get prelets.”

Gareth Williams, development director at Opus Land, lists the factors that are preventing developers from considering speculative building: the competition from landlords offering occupiers favourable terms on existing units; empty rates that mean a £1m a year bill on a 500,000 sq ft unit; and the severe difficulty of obtaining

development finance from risk-averse investors.

“Those combine to affect confidence,” he admits. And there is scepticism about the depth of demand.

“Is demand being stimulated by the good deals that are available for occupiers or by a return to strength in the retail market?” asks Steve Williams, head of industrial at BNP Paribas Real Estate.

Andrew Griffiths, UK managing director at Prologis predicts demand will be “quite low in by historic standards” in 2010.

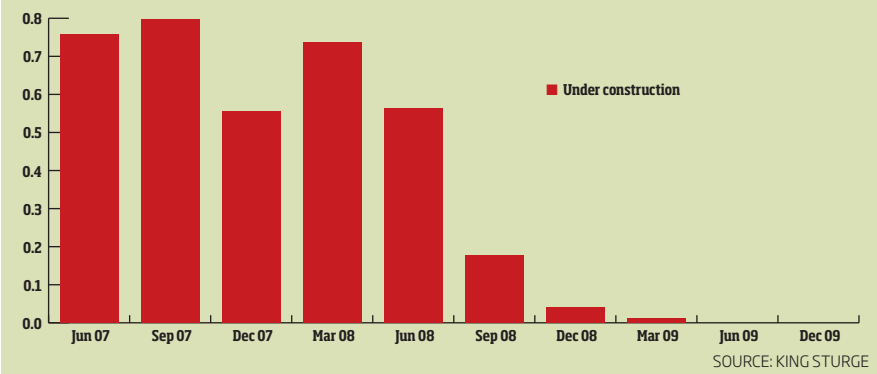
Big shed developers such as Prologis, Gazeley and Goodman are focused

on letting buildings completed in the last cycle. They are spending on preparing sites for prelets.

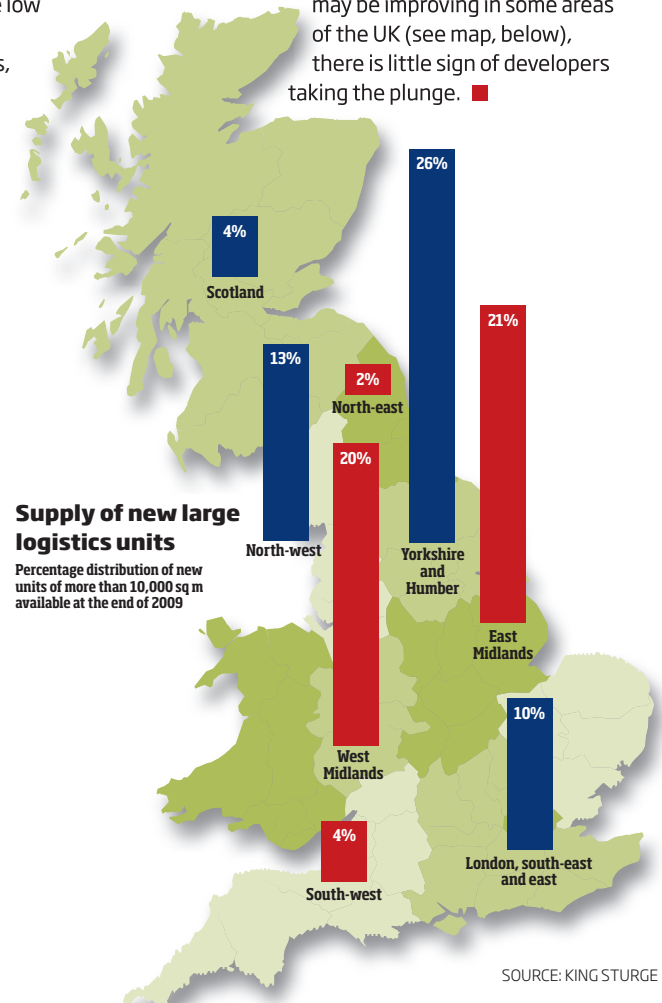
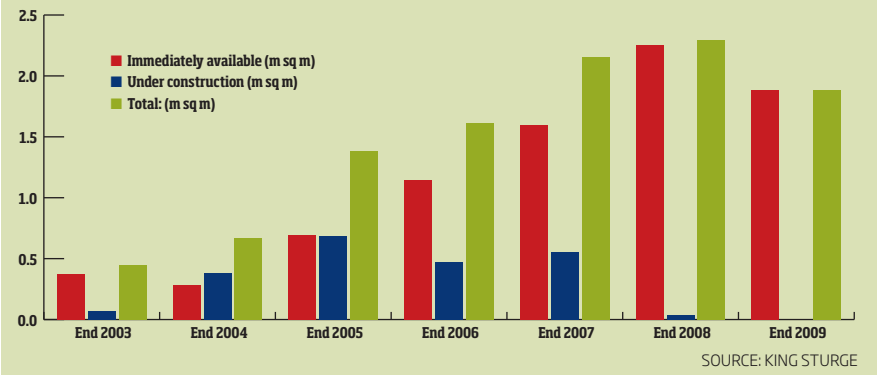
Nigel Godfrey, UK senior vice-president at Gazeley, says: “Retailers are prepared to take longer leases, construction prices have come down and there has been yield compression so we can do some sensible prelet deals that we can make money from.”

While the conditions for speculative development may be improving in some areas of the UK (see map, below), there is little sign of developers taking the plunge. ■

Speculative development for large logistics units switches off in 2009 (m sq m)



Overhang of available space in new large logistics units (10,000 sq m-plus)



Supply of new large logistics units

Percentage distribution of new units of more than 10,000 sq m available at the end of 2009

Talking sheds: when will spec development return?

There is unlikely to be any speculative development for two or three years, because you still have the problem of void rates

Jonathan Holland, director, UK Logistics Fund, Legal & General

For a return to spec building the finance will need to be there. It won't happen this year – and probably not next year – but maybe at the end of 2011 or beginning of 2012

Gareth Williams, development director, Opus Land

With empty rates, spec building is a dead duck

Graham Brown, head of industrial, Savills

We will not be spec building in the foreseeable future. Empty rates has substantially changed the risk profile. In 12 months falling supply may change the position

Nigel Godfrey, UK senior vice-president, Gazeley



Spec development will have a place in the market again, but there is still a lot of caution out there. I don't detect any appetite for it among institutional investors

Andrew Griffiths, UK managing director, Prologis



For buildings of over 100,000 sq ft I can't see it this year. Developers have been burned a little bit

Jason Dalby, managing director, Goodman UK Logistics

A reduced supply is likely to force occupiers and developers down a design-and-build route. There are institutions willing to forward-fund deals

Charles Binks, head of industrial, Knight Frank

You could see some spec development next year of small conventional schemes of 5,000-50,000 sq ft units in areas where there is demand

Nick Collins, head of industrial, GVA Grimley

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GAZELEY'S GUY IN DUBAI

■ Former Gazeley development director **Nick Cook** has just completed his first year as vice-president of commercial development at parent company Economic Zones World in Dubai

When you first arrive in Dubai and see the glitzy high-rise buildings, you think you could be driving through Canary Wharf. It seems like a really well-developed market, but the reality is very different. It doesn't have a huge amount of visibility. In the UK you can call up an agent and ask what rents are in a particular area, but here that doesn't exist. I spent some time working on products that would appeal to the institutional investment market before I realised that there isn't really such a thing in the Middle East.

The scale of things is scary. A big development site in the UK is 100 to 150 acres – Jafza (the Jebel Ali Free Zone) is 49 sq km. It is exciting to be part of such a rapidly changing market. Things happen so quickly. In two years they have built and opened a metro system – in the UK it would take that long to refurbish one station.

I have had to become familiar with sharia law, so that has given me some bedtime reading. Interest is not allowed and the principles of a full repairing and

insuring lease are considered inequitable to the occupier, so it is a challenge to create assets that are familiar to international investors. You have to come up with something that does the same thing but describes it in a different way.

The pace of growth out here is down to quick decision-making and a non-bureaucratic planning structure. When it comes to stimulating economic growth for a region and getting it done quickly they do it very well. The other great thing is the mentality. In the UK we can talk ourselves into a recession, but here there is a positive spin on what is going on.

Anything as significant as Dubai World's recent problems (the state-owned company is attempting to restructure \$22bn of debt) is bound to have an effect, but it has not made as big a dent in confidence as you would have thought. A lot of the press coverage – for example, stories of expats flooding out of the country – was rubbish. The restaurants and bars are as busy as ever.

Cultural export

The decision to move here came as a result of the acquisition of Gazeley by Dubai World development subsidiary Economic Zones World (EZW) in July 2008. One of EZW's goals was to bring our style of development to the Middle East, so I was asked by Gazeley's then chief executive, Pat McGillycuddy,

over a coffee whether I fancied it.

I've always got the feeling when I've talked to friends and colleagues who have worked abroad that it was one of the most glamorous parts of their lives. I didn't want to look back over my career and say: "Yes, it was good, but I didn't see anything else."

It is paramount to make as many contacts as you can, maintain them as well as you can, and, if possible, make no enemies. When I was on the estates surveying course at Nottingham Trent University I lived and studied with guys with whom I

went on to work. It's amazing how small the property community is, and your reputation precedes you. And there's nothing better than doing business with your mates.

I have learned how important it is to take heed of the

experience of guys around you who have been in the business a long time. I have had a lot of good role models: Mark Webster and Nick Waddington when I was on the industrial team at Knight Frank, Nick Redwood at Gazeley and Andy Griffiths before him. It's easy to build an ego, but however able I think I am, I won't stop learning.

The best bit of advice I had was from a Gazeley colleague who said: "You'll never do anything unless you take a risk." Development is about deciding which risks to take. If you try to eliminate every one then someone else will do the deal before you. ■

It seems like a well-developed market, but the reality is very different

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