What effect is the current wave of speculative shed development having on the serious shortage of supply in the UK, and will there be enough land to satisfy the needs of retailers in the coming years? **Simon Jack** investigates

It's raining sheds, hallelujah

A bit like the first drops of rain after a drought, speculative development has gradually returned after stopping completely for several years following the recession. But, while there is a constant stream of sheds coming onto the market, retailers still have to move quickly if they want to get hold of a new building.

The amount of speculative development is on the rise, providing some hope that the situation is easing. According to property adviser DTZ, there was 3.6 million sq ft completed in the first half of 2015, more than four times the amount in the same period last year. In addition, there is 4.4 million sq ft of speculative development under construction, with a further 2.4 million sq ft being proposed.

Simon Lloyd, head of industrial and logistics at DTZ, believes there will be a ripple effect on supply as the new space is let. "As occupiers reorganise, older stock will become available. This won't be brand new but it will often be good quality," he says.

This has helped improve availability for the first time since 2011 according to Savills but, so far, on a small scale. The company's research into buildings of more than 100,000 sq ft found that availability was 22.2 million sq ft at the end of the second quarter, a rise of 8.7% over the first quarter. But, to put this in perspective, the figure still represents a fall of 76% since the peak level of 2009.

One issue facing retailers is that there is so much pent-up demand that buildings are snapped up as soon as they become available. Kevin Mofid, head of industrial research at Savills, says: "A lot of the speculative space is being let during construction or shortly after completion, so that so far it is not really making much of a dent in supply figures."

One example of that happening is at Rugby Gateway, where a 237,000 sq ft warehouse ↘

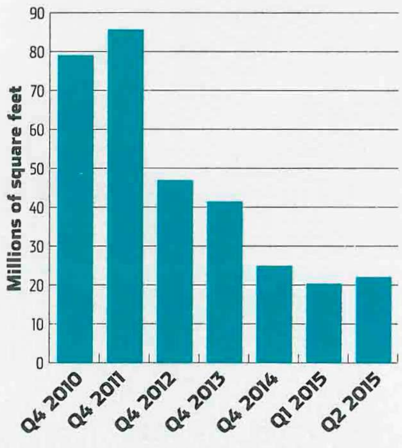
Beyond the hotspots

Although speculative activity has focused on the Southeast and the Midlands, there are some signs of activity in other regions.

In Yorkshire, for example, two buildings of 200,000 sq ft and 120,000 sq ft are being developed by Verdion at its iPort site in Doncaster. There are also two buildings being constructed in Wakefield totalling 276,000 sq ft.

Similarly in the Northwest, 185,000 sq ft is being built at a development called Revolution in Chorley, while two buildings of 145,000 sq ft and 65,000 sq ft are being developed at Heywood Distribution Park north of Manchester.

UK SUPPLY OF LOGISTICS WAREHOUSING BUILDINGS OF MORE THAN 100,000 SQ FT SINCE 2010



Source: Savills

Poundworld opts for bespoke DC

Poundworld Retail opted for a bespoke facility to support its store expansion programme and has signed up for a 524,000 sq ft build-to-suit unit in Normanton.

The business took its requirement to market with exact specifications about the height, layout, yard space and docking facilities, as Poundworld operations and property director Mark Ward explains.

"As there is not an abundance of properties or development plots which can accommodate that size of building there wasn't a massive selection of stock," he says.

"We looked at options in both South and North Yorkshire, which, although in a 30-mile radius of our head office and DC, would have meant relocating a number of people."

It then whittled its choices down to those in a five-mile radius of its existing facility before deciding on its site and applying for planning permission with its developer Marshall Construction Group.

Construction of the £39.4m building, which will be complete next autumn, is being funded by investor LondonMetric Property, and Poundworld has signed a 15-year lease.

Clockwise from top left: Prologis's Grange Park; Ruby Gateway; and the iPort development in Doncaster

being developed jointly by Roxhill Developments and Segro was let prior to its planned completion this month – the occupier is DHL, which will use the site for an as-yet unknown retailer.

All of the speculative development that is taking place is under 400,000 sq ft, with the largest building to complete this year being Prologis's 340,000 sq ft building at Grange Park in Northamptonshire. That was let to Clipper for a contract with Zara two months after completion.

Knight Frank head of industrial and logistics Charles Binks believes that developers will be wary of building anything larger than this as memories of a big over-supply after the recession are still fresh.

"We're not seeing anyone building 500,000 sq ft or 700,000 sq ft speculatively and I don't think we will," he says.

Get the balance right

Big developers are aware of the need to take a considered view of the location and size of buildings. Paul Weston, senior vice-president of Prologis, believes that current levels of speculative development can be easily absorbed by demand. "The market is not going to be left with a glut like it was in 2008," he says.

In August Prologis announced a programme of 1.2 million sq ft of speculative development in four buildings, having already built and let a programme of six buildings totalling 1.5 million sq ft in the past 18 months. It is focusing activity only on core distribution markets in the Midlands and the Southeast such as Daventry, Coventry and Dunstable.

"We've gone from a position at the height of the market where 80% of our development was speculative to now when it is 50%. That is a good balance," Weston says.

IDI Gazeley will also try to create a mix of speculative and build-to-suit space, as its UK head Nigel Godfrey explains. "I wouldn't

expect the proportions to be heavily skewed in either direction. It is a site-by-site decision but we would also look at our total portfolio of product that is being built at any one time," he says.

In September the business completed a programme of 580,000 sq ft in three speculative buildings in Milton Keynes, Daventry and Enfield. "We are close to leasing the majority of that space. It is a question of feeding stock into areas where there is an excess of demand over supply," Godfrey says.

Segro is also concentrating its efforts on the Midlands and Southeast, although chief operating officer Andy Gulliford believes they are two very distinct markets.

The Midlands is seen as a big shed market and Segro will consider further speculative development at Rugby Gateway. London and the Southeast, however, are characterised by demand for mid-sized units, he believes.

"The 50,000 sq ft to 80,000 sq ft size band is absolutely the sweet spot in London and the Southeast. The type of company looking for space is serving central London convenience retailing or is carrying out internet fulfilment," Gulliford says.

Segro has let two buildings totalling 57,000 sq ft to Ocado at Stockley Close in West London, while Wasabi took a 65,000 sq ft building, not due for completion until December, at the Origin development in Park Royal.

The reluctance to develop very large sheds and the limited amount of speculative ↘



From left: Prologis' Paul Weston; Simon Lloyd from DTZ; Savills' Kevin Mofid

building taking place has helped stimulate an increase in the amount of build-to-suit units being developed.

These accounted for 51% of industrial transactions – made up of second-hand units, speculative space and build-to-suit – so far this year compared with 30% last year and 9% in 2010, according to Savills. There have been six build-to-suit deals above 500,000 sq ft in the first half compared with three in the same period last year.

Savills' Mofid expects the level of build-to-suit to be maintained, partly due to the way larger retailers handle logistics. "The supply chain is more complex than it used to be and people are requiring a higher level of customisation," he says.

Those going down this route include TK Maxx, which has signed up for a 650,000 sq ft warehouse in Wakefield, and Dunelm, which has taken a 525,000 sq ft unit being constructed at Prologis Park Sideway near Stoke.

Protecting industrial development

With both build-to-suit and speculative development growing, there is a question mark about the long-term supply of land and whether there will be enough development sites available for retailers' future needs.

Peter Ward, chief executive of the UK Warehousing Association, which represents providers of third-party warehousing, believes there is a underlying conflict between the pressure to build more housing, often on former industrial land, and the need for urban logistics centres.

"Residential has a far higher return on investment, which means it always wins out, so it will need government intervention to protect industrial development sites," he says.

Godfrey adds: "Getting land through a local plan is a slow and cumbersome process that can take five to 10 years and warehouse developers are competing against residential uses for both greenfield and brownfield sites."

But, whatever the longer-term picture may be, many believe that there is sufficient land with planning consent to satisfy the market. Much of it is in the hands of developers such as Prologis, IDI Gazeley, Roxhill Developments and Goodman, which between them have more than 4,000 acres of land.

Binks says: "The current development levels will take out sites but not to the level that it removes all current land supply."

If the long-term supply of land is restricted, however, retailers may have to consider collaborating with other companies and sharing warehouses. This could be with a business from a different sector that might have opposite peaks throughout the year, or even with competitors that may deliver to similar locations.

Big third-party logistics providers already run shared-user warehousing but there could be potential for making better use of under-utilised space, according to Ian Henderson, group property director of Wincanton.

"Two different customers within the same unit can work well if you manage it properly," he says.

John Boulter, managing director of retail at DHL Supply Chain, says the company has experienced increasing interest in collaboration, particularly with regard to transport.

He adds: "It's a transferable model, and warehouse collaboration is therefore a realistic solution for larger retailers to improve efficiencies and cost control in the foreseeable future. We are expecting that more and more retailers will look to this model."

Whether or not sharing facilities becomes more commonplace, sourcing the right warehousing looks likely to continue to be an ongoing challenge for retailers, despite the increase in development.

The Entertainer picks a tailor-made building

When The Entertainer moved into its new distribution centre in Banbury in July, it was the culmination of a two-year project that started with an analysis of different locations.

Managing director Gary Grant explains: "Our first objective was to look at our existing store estate and expansion plans and to calculate where our centre of gravity would be for the next few years."

The toy retailer looked at various Midlands locations and compared the total costs including rent, labour and transport with the stores. From this it chose a 250,000 sq ft build-to-suit unit at Banbury Cross owned by landlord Aviva, with whom it has a 10-year lease.

Grant says that the building was designed exactly to its needs, particularly in terms of its layout and height – its capacity is 2.5 times that of its previous warehouse in Swindon, which had a footprint of 175,000 sq ft.

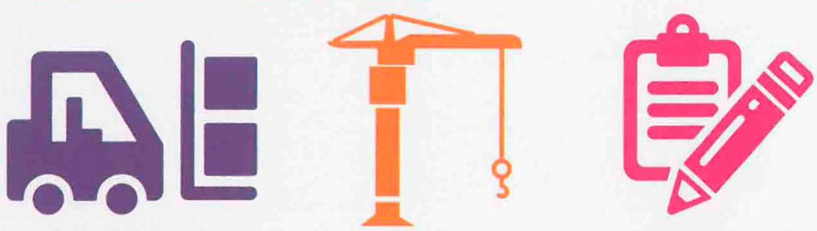
"We looked at the racking design and then boxed that in. If you start with an existing building and then install the racking you won't get the same efficiencies," he comments.

The warehouse will cope with the retailer's expansion, which will include 18 stores opening this year and in excess of that next year – at present it has 98 stores.

185,000 sq ft is being built at Revolution in Chorley

SPECULATIVE DEVELOPMENT IN 2015

Source: DTZ



3.6 million sq ft completed in H1

4.4 million sq ft under construction

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