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MONEY READY TO INVEST

After a slowdown in investment and speculative development, where does the industrial and logistics market find itself? This Insider round table brought together key stakeholders asking what the outlook is

ATTENDEES

Andrea Ferranti director for industrial client engagement, research and forecasting, Colliers
Rob Whatmuff head of Leeds office – industrial and logistics, Colliers
Robert Simpson director – project and building consultancy, Colliers
Dan Burn development director, Panattoni
Emma Lancaster planning director, Quod
James Appleton-Metcalfe director, Citivale
Jon Brookman director, S+SA Architects
Katie McManus senior development manager, HBD
Richard Griffiths director, RG Consulting
Sarah Friskney development director, Glentrool

Whatmuff

In terms of stock, we've moved from famine to comparative feast in this region. We had the lowest levels of supply in the country in 2022 to now having a reasonable level of supply, though it isn't vast. In terms of newbuild over 100,000 sq ft, there are 16 units currently standing, speculatively built, which totals 4.1m sq ft. However, the five-year average take-up for the region is 4.5m sq ft so we don't even have a 12-month take-up availability.

The B8 [use class], 3rd Party Logistics [3PL] sector, is still the market driver accounting for around 65 per cent of enquiries. Leeds has very limited supply. You could talk about Sherburn as being fringe Leeds, with an LS postcode. At the moment, the importance is having standing stock. There's still a few 1m sq ft requirements, a couple of 700-850,000 sq ft, a number of 3-500,000 sq ft. Where the 3PLs are chasing contracts for five years, ten at a push, hardly anyone would do a build-to-suit on the back of a ten-year lease. Demand size seems to go in cycles; this year it might be a sweetspot of 100,000 sq ft to 200,000 sq ft.

Because of the lag in supply, I have been saying to people that if you have the ability to start on site then do it now because we have less than a year's supply.

There has been a definite correction in vendors' aspirations on land values.

Rental growth remains robust – last year it rose 7.1 per cent. There's possibly a little more rent-free being thrown in, while there is an element of competitive tension. Appraisal yields are the reason for little speculative development. The market has not been able to correct itself quickly enough. Regionally, I can't sign anything off that is stronger than 5.25 per cent [exit investment yield], and that is for prime locations and institutional product.

Simpson

The occupational market regionally is still strong. From a build perspective, cost inflation has settled. It was difficult to manage during the post-pandemic period. We predict build cost inflation of around 2.25 per cent this year, principally driven through labour costs.

Developer and landlord targets on EPC [Energy Performance Certificate] and net zero translates to energy saving for occupiers and is therefore sought after. Power demand and infrastructure constraints are becoming increasingly challenging, particularly with the move away from gas as an energy source, demand for data centres and EV charging.

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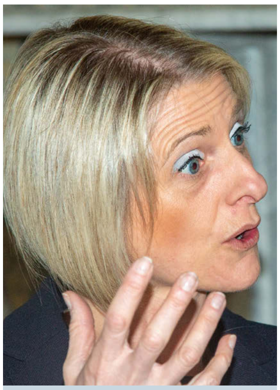
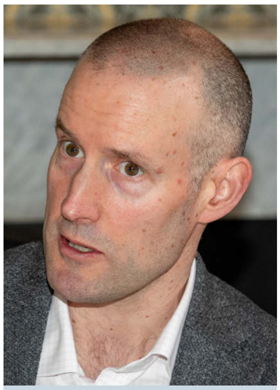
Dan Burn

James Appleton-Metcalfe



Sarah Friskney



Richard Griffiths

Emma Lancaster

Andrea Ferranti

Appleton-Metcalfe

The traditional investment pension funds, which don't rely on debt, are starting to warm up now and talking about investing in industrial estates. Private equity, which is a weight of money and needs debt, is still sat on the sidelines. Until we see base rates cut then it is difficult to make it [development] stack up. We invest in direct stock as well with an American equity which is syndicated in the Middle East; the problem is that they can invest anywhere and the returns in the US are so much more attractive than the UK so there's a lot of money flowing there instead of the UK and Europe.

When I started out as an investment agent in London quite a few years ago you could count investors on one hand. Now, I wouldn't know seven out of 12 bidders on something. There's a lot of Israeli investors come to the market and it is a different landscape. Everyone is looking for core+, value add.

ESG [environmental, social and governance] isn't just driven by occupiers, it's coming from every angle – investors and consumers too. Pension funds won't buy product that isn't compliant. I'm still waiting for an answer though to what the yield differential is from an ESG-compliant product.

Ferranti

Nationally, take-up is half of what we had in the pandemic. So Q1 2024, we recorded circa 5 million sq ft of take-up for 100,000 sq ft-plus sized units. And that's close to the previous five or six quarters so it has normalised to a new level. It is taking much longer for units to let and vacancy rates nationally have increased to 7.4 per cent, driven by three factors. The first is a slowdown in occupational activity. The second is the amount of tenant space being returned to the market. And thirdly, a record level of spec development.

However, construction starts are slowing down massively. In Yorkshire, there is one unit above 100,000 sq ft plus [under construction] so as demand absorbs new supply there will soon be an issue for occupiers for prime space which will drive rental growth.

At the moment, you can't empirically measure the yield differential [on the best ESG product], particularly now we are in the midst of a market rebase. I think we will get a proper answer when investors stay away from secondary stock which requires a lot of CapEx [capital expenditure]. At that point, then we will see transactions happening and we'd be able to measure it. At the moment, to make your appraisal stack up, you are forced to go for core+ or value add, highly reversionary investment opportunities to capture the upside of lease renewals.

On the depth of the investor market, a lot of our clients have between £200m and £500m raised and struggle to deploy the capital. So with a couple of interest rate cuts, improved investor sentiment, the economy ticks up and consumer spending improves, there will be a lot of money-chasing opportunities.

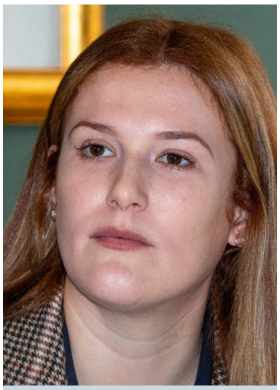
UK GDP is driven by consumer spending, one third of it. And fulfilment is ultimately consumer spending that needs to be serviced so we need more logistics space and consumers will be buying more with AI [artifical intelligence], new technologies and people become more tech savvy. The number of online sales volumes is now 19 per cent higher than what it was in February 2020, just before the pandemic.

Friskney

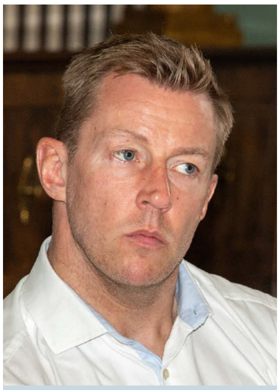
I am fairly excited about the mid-box market looking to the next 12 months at local markets and expansion from local occupiers which is slightly different to the big-box market. Those appraisals are looking healthier than six months ago. It's small manufacturers and logistics operators in a 20,000 sq ft place and wanting to be in 50,000 sq ft and looking for freehold opportunities.

The size demand is across the board. We are in for units varying from 2,500 sq ft to 55,000 sq ft, albeit those are so costly to fund. The appraisal doesn't work but the mid-box units will underpin the SMEs [small and medium-sizes enterprises] and startup industrial units whereas the high-end big-box will take time to come back.


Jon Brookman


Katie McManus


Robert Simpson


Rob Whatmuff

At the moment you can be waiting 18 months to two years for planning. And you can lose a market overnight. It is a real problem forecasting, crystal-balling when you will actually get planning and to be able to talk to your occupiers because they can't tell their funders. Planning officers are struggling with consultees and those who shout the loudest, whether that is ecology, landscape and with biodiversity net gain coming in, it just gets more complex.

Burn

There is pent-up investor demand in the sector, we just need to see some movement on interest rates to give people confidence. Probably by the backend of the year, post summer. But if these buildings are to be built, there has to be some forecast rental growth. Our letting at Rotherham, 630,000 sq ft, had 30,000 sq ft of offices in it – the biggest office letting in Rotherham for some time. On the planning point, we got that application through on the [planning committee] chairman's nod despite it having outline consent, it had been taken out of the greenbelt years ago. The MP there had been against it too.

The larger requirements, 500,000 sq ft-plus, are national requirements. It isn't a question of is it South Yorkshire or the North West. But if someone wants 750,000 sq ft now, where will they go? I don't think there is currently a single, readily available new building above 500,000 sq ft in the UK market. You then have to go for a build-to-suit and you have to wait.

Lancaster

There is a disconnect between the government brochures and the planning system – a lag between the messaging and what happens on the ground in plan-making. A challenge I face day in, day out, is convincing local authorities on the scale of need to plan appropriately, especially where a lot of the evidence base is looking back at historic patterns of take-up that have been depressed already because the land hasn't been available. There are forward-thinking local authorities such as Doncaster and Mansfield, but others which don't recognise the value of their regional assets or make strategic allocations that meet the scale of need that actually exists.

Even when you have resolution to grant from a planning committee, there are delays with agreeing Section 106 obligations. I have spent six or nine months with legal agreements in draft form and no route to push it through. I think there is still an education piece needed – there's a view that logistics doesn't generate employment. You almost need to take a planning committee around some of these units to show them the scale of operation and what goes on inside.

> "We just need to see some movement on interest rates to give people confidence."
> Dan Burn
> Panattoni

Griffiths

Considering the rising share of consumer spending attributed to ecommerce and the sustained demand for logistics space, I believe there's a need for developers to improve their communication with local politicians regarding the highly skilled and well-paid jobs available in this sector. It's evident that the growth of ecommerce presents opportunities for local planning authorities that can effectively allocate land and expedite planning decisions, while also fostering connections with local education and training institutions. This approach will enhance the employment prospects and ensure economic benefits within the local community.

Brookman

The main challenge for architects within the industrial and logistics sector currently lies within the planning process. The requirement from some local authorities pushing for BREEAM Excellent-rated buildings and sites can lead to rising costs and general uncertainty. Due to the recent changes to the Building Safety Act, we are currently in the process of navigating the new BRPD [Building Regulations Principal Designer] role, ensuring our clients are well advised of our competencies as per the new regulations within PAS 8671.

McManus

We have recently been appointed as development partner on Goole Freeport, off Junction 36 of the M62 and near Goole Port. With the Freeport status, tax incentives are available to develop a cluster including for advanced manufacturing and low carbon energy. It's important there's an existing ecosystem or links between private and public sector as well as skills from universities to create advanced manufacturing hubs. It's worked well at the Advanced Manufacturing Park with Sheffield University. In Goole there's occupiers like Siemens who are expanding. There's a lot of investment in the area and the site has strong support from East Riding Council and central government. We are working up the planning application to be submitted next month for 5 million sq ft of manufacturing and logistics space.