



Signs of the times

Is the current economic recession stopping those with expansion plans in the distribution industry, or are they pressing ahead anyway? **Sally Nash** finds out how different companies are reacting

As the UK domestic property market continues to face uncertain times, what is happening to the commercial property market in the distribution industry?

Are hauliers delaying big investment decisions on commercial property, or are they pushing ahead with their plans, confident that expansion is a sound business strategy? Worried about fuel prices, small companies seem to be tightening their belts and concentrating on the here and now. But larger logistics firms, perhaps with a healthier balance sheet and more financial reserves, are pressing on with their plans, which could include expanding existing sites or building new warehouses.

Triple A Transport is possibly typical of many operators that want to expand, but are thinking in more creative ways than simply throwing a lot of money at a risky new-build site.

Managing director Richard Newbold believes many firms are putting off property investment decisions or are choosing short-term options because of the current economic climate.

Leasehold option

Triple A has just opened a new 25,000ft² warehouse in Tilbury, Essex, and Newbold says that if the market was in a better state the company might purchase something else locally as the space is now full. One consideration would be to take on a leasehold property with an option to buy at some point in the future, he adds.

“Commercial property has gone into reverse recently and companies generally are putting off making decisions about purchasing freehold and going for leasehold instead,” says Newbold. “And even with leasehold, many companies are opting for short-term leases.”

Triple A is considering operating out of a

couple of other areas of the country, but has ruled out buying freehold properties at this stage. Instead, it is looking to partner with other hauliers and work with them.

Newbold is pleased about the Tilbury warehouse and headquarters as he says the company achieved "quite a reasonable deal". Triple A bought four acres of land just outside the port from British Waterways, sold three acres and kept one for the site.

In yet another sign of the times, south Wales haulier Gerry Jones Transport is delaying the building of a new warehouse due to the "general economic downturn".

In August 2007, Caerphilly Council approved the firm's application to demolish buildings at its Crosskeys, Caerphilly, facility, and build a new 30,000ft² storage area with an 18m x 44m loading canopy. The company had planned to start work on the warehouse, which is estimated to cost between £750,000 and £1m to build, earlier this year.

Owner Gerry Jones says it wasn't the right time to press ahead with the plans, given the economic climate. He stresses that the decision was nothing to do with acquiring funding for the warehouse, but over concerns that there might be "nothing to put in it" due to a decline in the UK's manufacturing base.

"This was a personal commercial decision to delay the warehouse until the economic picture improves – although this could be a year or two away," says Jones. "It would be a bit silly to build a £1m warehouse and not know how you are going to fill it." Jones says that under planning permission rules, the company has five years to build the warehouse.

However, some operators are more confident about property and demand from customers for warehousing.

Mark Strong, managing director of Seafield Logistics, says that despite the economic climate, demand for warehousing seems to be holding up. The company's warehouse in Aylesham, Kent, has been open for seven months and is more than 90% full. A redevelopment at Claylands, Worksop, is currently "on hold".

Strong explains: "The redevelopment plan at Claylands Avenue was a property-based project driven by our parent company, which is heavily involved in property ownership and management around the world. As the new warehouse was a speculative build, it has taken the current state of the property market into account and postponed the build programme until a more financially beneficial environment emerges. This does not impact on logistics-based property investment with specific customer contracts in mind, as evidenced by

the £2m new warehouse build at Aylesham.

"Seafield's position regarding future investment in property will be judged on a case-by-case basis, but with the volume of enquiries we are receiving from companies looking to the future, we are feeling cautiously optimistic."

Bucking the trend

While small- and medium-sized hauliers are putting off major property developments, larger logistics firms and retailers appear to be bucking the credit crunch and spending money on new distribution sites. Marks & Spencer recently announced plans to build a £67m distribution centre in Bradford, creating 2,500 jobs. Subject to planning permission, it hopes to open one of the biggest transport and distribution hubs in the UK in 2010.

Fashion retailer River Island has paid Gazeley and Land Securities more than £20m for the freehold of a 450,000ft² distribution centre at Magna Park, Milton Keynes. Meanwhile, online retailer Amazon has opened a massive 800,000ft² distribution facility in Swansea.

Independent freight forwarder Davies Turner has completed the construction of a multi-million pound expansion to its freight and logistics hub at Avonmouth, Bristol. The total area of the its warehousing at Avonmouth now amounts to more than 161,460ft², comprising the existing transit facility, plus the newly-built distribution centre. Talking at the opening of the new facility, joint managing director Philip Stephenson told guests that this would not be the last of Davies Turner's property plans and the firm was looking to expand its existing facility in Dublin. ■

OPERATORS – WHAT HAVE THEY BEEN DOING IN 2008?

- James Timms Transport has taken a 62,500ft² distribution and storage building at St Modwen's 24-acre Quedgeley East estate, Gloucester, on a three-year lease at rent of £124,000 a year.
- Transport company CM Downton has secured a design and build contract with St Modwen to build a 102,000ft² distribution warehouse at the 32-acre Quedgeley West Business Park, Gloucester Ash.
- Bibby Distribution has relocated its operations to a 126,022ft² warehouse in Elland, Leeds.
- International freight distributor RJJ Freight has leased a refurbished 5,620ft² unit at Ringway Trading Estate on Shadowmoss Road, near Manchester Airport on a ten-year lease at a record rent of £6.50/ft².
- James Hall & Co, which distributes for Spar in the north of England, has started construction of a new distribution depot in Fulwood, Preston, Lancashire.
- Boughey, the distribution division of NWF Group, has opened the doors to its new £15m storage facility in Wardle, Cheshire.

WHAT THE EXPERTS SAY...

Property consultant King Sturge says that while the industrial investment market has seen a sharp fall in transactions and a significant and rapid correction in pricing to date, the occupier market has been broadly stable and relatively robust.

The national level of take up of large new distribution units of 100,000ft² and over for the whole of 2007 was lower than recorded in 2006, but still significantly above the long-run average level for the past 10 years, says King Sturge.

Against the background of the slowing economy, industrial demand in general is expected to weaken in 2008, and clearly if the economy decelerates more quickly than expected and confidence deteriorates, demand could soften significantly.

Some occupiers might experience difficulty in borrowing money to facilitate freehold acquisitions, which may result in them reverting to leasehold options. Following modest rental growth of 0.7% during the first half of 2007, the industrial market as a whole has continued to experience similarly modest rental growth throughout the second half of the year, returning 1.4% in the year to December.

In March, King Sturge said the overall level of available industrial floorspace across the UK had increased for its fifth consecutive survey. A major factor behind

this being the continuing development of large distribution facilities, many of which have remained available since King Sturge's previous survey.

Occupiers are increasingly on the look out for sites with good access to railways and ports, as pressures grow for more sustainable supply chains, according to property consultant Lambert Smith.

Meanwhile, Spaciotempo, a temporary building provider, says demand is rising because firms are seeking new ways to minimise risk and are postponing non-essential expenditure.

ProLogis is the owner, manager and developer of distribution facilities. It says that in the UK, "leasing decisions are slower". As a result, the company is proceeding more cautiously and, as in the US, it is focused almost exclusively on build-to-suit activity in terms of new development for this year.

La Salle's report from March this year also pointed to speculative construction becoming more limited during 2008, with the majority of developers building only on a pre-let or built-to-suit basis. It says the UK, Germany, France, Sweden and the Netherlands saw the highest investment transaction activity in 2007. However, volumes decreased by 35% in the UK to €4.3bn (£3.4bn).