

A lack of quality, cutting-edge retail warehousing space has hampered multichannel growth and delayed supply chain modernisation. But with rumours of huge warehouse deals underway, a pipeline pickup is on the horizon, reports **Ben Cooper**



Shaking hands on new shed deals

When Asda's chief customer officer Stephen Smith says advances in supply chain technology are the "one big change that retailers often overlook", it's worth taking note.

"There have been some amazing changes as technology has developed. Your business is either adapting to those changes or it's suffering," he says.

It's the big challenge behind the scenes of every retail company. As online sales continue to grow at a much faster rate than physical purchases, retailers need to think about how to make the whole process more efficient if they are going to keep up in such a competitive market.

When it comes to updating and restructuring for a multichannel future, Asda has been one of the busiest retailers with a major

modernisation programme underway. But not all retailers are up to date.

Supply chain technology might have moved on over the past six years, but with an almost non-existent development pipeline in the industrial sector, the right warehouses and distribution centres haven't been available to house it.

Finally, however, some encouraging signs are emerging.

There are rumours to be huge warehouse deals currently underway, many pre-sold to some big retail names, and all the indications are that within a year the pipeline will be active once again.

High demand

With ecommerce at such a mature state in the UK, even when compared with most of Europe, the pressure is on to have the best,

most efficient supply chain systems available to feed it. Whatever else is happening in industrial warehousing development, demand is certainly there. BNP Paribas Real Estate national head of industrial agency Nick Waddington, says retail accounts for the bulk of demand across all sectors of the market.

He says: "Retailers may be feeling the pinch regarding the availability of storage and distribution space, but in reality the sector has been doing much better over the past 12 months than others."

"According to our research, retailers have accounted for 54% of take-up of industrial and distribution accommodation [of more than 50,000 sq ft] in the UK so far in 2014. They also accounted for half of all such transactions during the whole of 2013."

In comparison, of the deals done in 2014 so far, BNP's research shows that outside of retail, 22% have been by third-party logistics companies, and 24% by manufacturers.

Taking a closer look at these deals reveals a very telling picture of what is happening in the wider retail world. One of the biggest success stories of the past year has been the coup by Aldi and Lidl in taking a big chunk of the lucrative grocery sector.

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Kevin Mofid, Savills

So it wasn't a great surprise when in June, six months after its best-ever Christmas period in the UK, Aldi stepped up its logistics operations signing a major state-of-the-art warehouse and distribution centre, due to be up and running next year. The 560,000 sq ft super-efficient cold-store distribution centre in Goldthorpe, just outside Barnsley, represents a big step forward for Aldi, which has laid out its ambitious plans to expand its stores portfolio – and needs the right logistics space to do so.

And with yet another deal by the discounter, for 120,000 sq ft of distribution centre space, rumoured to be underway, Aldi's growth isn't just one of market share: it is making waves in the logistics arena too.

Its big sector rival, Lidl, has also been busy. On the back of a 20% increase in like-for-likes in the 12 months to June this year, the retailer has pushed the button on a major expansion of its operations. As part of this £220m investment, in June the discounter opened its ninth distribution centre in the UK, having announced a wish list of 450,000 sq ft of extra distribution space in April.

Watch this space

The rise of the discounters is a relatively recent phenomenon in retailing, and it continues to

play out in the logistics market, especially given the nature of their operations and the troubles their competitors have faced.

Savills associate director of research Kevin Mofid explains: “Tesco and Sainsbury's have had a lot to think about recently, but all Aldi and Lidl have to think about are their food supply chains.

“It takes a very different property portfolio to service their stores. They don't have online operations, they don't have any extras.”

But eclipsing even these deals is perhaps the most prevalent rumour in retail logistics: Primark's impending deal to take a 1 million sq ft distribution centre in Islip, Northamptonshire. Just like Aldi, the value fashion chain has big plans of its own, and if and when it does sign for the new centre, it will have some crucial new logistics powers at its disposal.

The fact that Aldi and Primark's major deals have both taken place in Yorkshire and Midlands, the ‘heartlands’ of logistics, is telling in itself. Even at the lowest point, development in the Southeast didn't fall off as much as elsewhere, as economic activity was largely maintained within the London halo.

In parts of the Midlands and the North, it was a different story. At the low point of the downturn, particularly in secondary locations, national retailers simply put expansion on hold or, even worse, decided not to renew leases, while a significant number of independents went bust.

As a result a high proportion of the distribution space in the North actually remained empty, while further south there was very little for retailers to choose from.

Knight Frank head of logistics and industrial Charles Binks says: “It was a different picture depending on where you were in the country. London, the Southeast and East Midlands had the least supply, while there was quite a bit of availability in Yorkshire. But now some of those locations have seen some big deals and the supply is falling.”

Anyone in logistics knows that for a retail business to be truly active nationally, it's the Midlands that holds the key to growth. And now that growth is more than just a promise on the horizon, and retailers such as Primark



Purpose-built and speculative development (in sq ft)

	Purpose-built	Speculative
Q4 2007	7,134,126	14,749,059
Q1 2008	7,898,971	11,159,263
Q2 2008	7,285,973	8,711,351
Q3 2008	7,121,088	7,075,363
Q4 2008	6,512,602	3,203,667
Q1 2009	5,979,202	2,374,475
Q2 2009	6,501,523	1,434,713
Q3 2009	4,915,680	510,125
Q4 2009	5,211,701	302,680
Q1 2010	3,488,855	-
Q2 2010	3,321,271	159,000
Q3 2010	5,905,368	159,000
Q4 2010	5,904,468	159,000
Q1 2011	6,037,913	358,956
Q2 2011	5,630,632	199,956
Q3 2011	3,624,064	253,776
Q4 2011	4,460,552	253,776
Q1 2012	5,353,418	53,820
Q2 2012	7,602,786	53,820
Q3 2012	8,747,978	-
Q4 2012	7,317,801	-
Q1 2013	6,839,437	382,000
Q2 2013	4,994,275	443,500
Q3 2013	6,280,444	1,147,400
Q4 2013	9,788,967	1,147,400
Q1 2014	11,866,373	1,423,339
Q2 2014	13,111,215	3,145,809

SOURCE: GERALD EVE

Development completions by region (in sq ft)

	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013
London and the Southeast	1,424,903	2,380,023	3,310,647	3,147,803	3,081,958	1,825,563	1,639,896	1,916,497	3,278,383	3,508,249	2,960,703
Rest of UK	2,185,499	1,461,034	1,816,098	2,674,562	2,435,749	2,617,212	2,718,860	3,024,738	3,667,126	3,481,682	3,109,598
Midlands	564,347	1,438,978	1,448,926	1,234,576	3,130,231	2,386,307	2,853,599	3,957,434	2,267,531	2,596,693	1,981,558

SOURCE: GERALD EVE



Aldi's logistics need to match its store expansion plans



There has been a stark rise in development, especially in the Midlands... it's the heartlands that are increasing sharply

Richard Ludlow, Gerald Eve

but with 3.1 million sq ft of speculative space commenced in the second quarter of this year, things are looking up.

Working backwards, Gerald Eve's data shows that speculative development activity in the second quarter of this year equalled that in the final quarter of 2008, when 3.2 million sq ft worth of projects got underway. However, it's a little premature to call this a total return to form given that in the third quarter of 2008, 7 million sq ft was started nationally.

When Aldi moves into its new distribution centre in Goldthorpe next year, it will not only have upped its distribution footprint significantly, but will also be in exactly the type of custom-built, cutting-edge space that Asda's Smith says is so crucial to retailers' operations.

The discounter is just one of many retailers with growing appetites for space. Deals by Fat Face, B&M Bargains, H&M, Ryman, Farmfoods, Amazon, Marks & Spencer and Primark – to name just a few – have all been sealed in the past year, proving that pipeline pickup is certainly on the cards. ■

and Aldi are planning to expand, development activity is returning to the heartlands (see 'Development completions by region' box).

Gerald Eve partner Richard Ludlow says: "There has been a stark increase in development, especially in the Midlands. London has been insulated by the recession so the numbers there and in the Southeast have been kept reasonable, but now it's the heartlands that are starting to rise sharply."

Rewind six years and it was a very different story. Even sharper than the uplift Ludlow describes was the drop-off in development in 2008. With funding almost non-existent

and very little demand from retailers or 3PLs, all construction activity, particularly in the Midlands and the North, was put on hold.

By far the most drastic fall was in speculative development which, with the extra element of risk, lost all appeal to financial backers. So much so that the figure for development starts (projects that got underway) dropped from 14.7 million sq ft in the final quarter of 2007 to zero in the first three months of 2010 (see 'Purpose-built and speculative development' box). As the figures from Gerald Eve show, we are still a long way off the 2007 high point,

Speculative development

Services company DTZ monitors all the major property projects taking place in the UK, and its recent findings make for promising reading. Under construction at the moment are some major industrial units, the largest of which, 3PL ProLogis' 340,000 sq ft distribution centre at Grange Park in Northampton, is well underway, followed by the 316,000 sq ft London Gateway project, which could transform the way logistics happen in the Southeast.

In total, DTZ counts just under 2.4 million sq ft of new space currently under construction, and the kicker is that all of this is speculative. But, says DTZ head of industrial and logistics Simon Lloyd, while this is all good news, the funding structure required and planning constraints mean there is still a lag in development, particularly in the Midlands and the North.

He says: "Speculative funding is still hard to come by so the market will remain reasonably

Region	Industrial park	Location	Size (sq ft)
East Midlands	Grange Park	Northampton	340,000
London, Southeast, East	London Gateway	London Gateway	316,000
London, Southeast, East	ProLogis Park	Dunstable	302,000
London, Southeast, East	Tower Thurrock	Thurrock	279,000
London, Southeast, East	Basildon Gateway	Basildon	178,010
West Midlands	Birch Coppice	North Warwickshire	152,500
London, Southeast, East	Aylesford	Kent	145,540
London, Southeast, East	Origin	Park Royal	121,840
London, Southeast, East	ProLogis Park	Heathrow	102,900
London, Southeast, East	G Park	Enfield	100,000

SOURCE: DTZ

cautious. But if you have all the planning consent in place, you can accelerate your development programme reasonably quickly.

"We'll see more projects coming through, but it won't be a whole wave of them. Overall there will be a similar amount to what we have seen in the past 12 months."

One of the big advantages of industrial space is that it has a much quicker build time than most sectors of property. A distribution centre can be up and running within 16 weeks of the developer getting on site, and – as is often the case – retailers can go ahead with a project themselves if they have the funding.