

## UK Warehousing Market

# Can space meet the challenge of agility?

**In the face of uncertainty businesses need to be flexible and agile to compete. However, the pressure of finding available warehouse space in the right location, to the specification required, and on the right terms, is putting a strain on the market. What can be done to alleviate the pain? By Sid Holian, Managing Director, and Steve Purvis, Operations Director, at Bis Henderson Space.**

The market for warehousing in the United Kingdom is, if not in crisis, certainly facing some major challenges.

A combination of factors are creating a perfect storm, significantly impairing the ability of businesses to secure the space they need, at the specification they require, in the locations they desire and on terms that make commercial sense.

There are both supply side and demand side issues here, and these also reveal deficiencies in the current warehouse estate.

### Supply side problems

A lack of investment by developers is currently and fashionably blamed on uncertainties over 'Brexit' but in fact it extends back for many years to the 2009 financial crisis, and reflects far wider commercial uncertainties.

Restrictions on the availability of sites, especially as government policy favours housing over commercial use, is a particular problem. It is already effectively impossible to find a new site within London's M25 and in similar positions around other major conurbations. There might be some hope in the recent announcement of a major sell-off of MoD land – but this is a fifteen year programme, many sites near urban areas have been chosen precisely because of their potential for housing, and as for rural camps and airfields, ideal though they may be for 'sheds', the absence of a likely workforce is a problem. As it is, major distributors are having to select sites near, for example, Northern industrial towns because, although they carry a penalty in terms of transport costs and times to major markets, they do have a potential workforce.

Where sites are available, developers may be reluctant to commit unless they can secure one or more 'anchor tenants' – big name companies that will commit over ten years or more, and thereby bring confidence for other potential tenants. Unfortunately, such long-term commitment is increasingly hard to find.

For firms that need a fast service to customers and consumers - and who doesn't - infrastructure and congestion problems also loom large.

An October 2016 report by property agents Savills, looking at premises above 100,000 sq. ft., finds that the available amount of warehouse space has fallen by 71% since 2009 and now stands at 27 m sq. ft., equating to just over 14 months of supply or a vacancy rate of just 6.2%. And critically, the UK Warehousing Association suggests that 20% of available warehousing is 'not fit for purpose' for modern industries.

The supply pinch is felt by all sectors including manufacturing, but felt most acutely in the fast-developing retail sector. A November 2016 report from Addleshaw Goddard, quoted in 'Retail Gazette', claimed that the growing demand by online retailers and their associated delivery and logistics suppliers alone next year will amount to 18 million sq. ft., of which just 3.5 million sq. ft. is likely to be built.

There is little expectation that the supply situation will ease any time soon. Property agents Cushman & Wakefield's report for Q3 of 2016 suggests that "Private equity buyers will become more prevalent... [and we are] likely to see the re-emergence of institutions for the better quality stock'. Such investors are not expecting yields to decline any time soon.

### **Demand side problems**

Patterns of business are changing constantly and rapidly for many sectors. That includes but is not confined to the rise of e-commerce.

For e-retailers in particular, and increasingly for most other businesses, speed of response to the customer or consumer is now paramount – often outweighing price. Next-day delivery is so last year – same-day in a guaranteed time slot is becoming the new norm in many areas. This is driving a demand for warehousing and distribution centres ever closer to the main areas of demand – precisely where available premises are scarcest.

The trend is not confined to retailers – many manufacturers now find the divide between B2B and B2C somewhat blurred. Where their warehousing was once involved solely in receiving, storing and shipping bulk or pallet load goods, they are now required to break bulk and make up smaller but much more frequent deliveries for even trade customers. This has implications for the type of warehouse property they need.

In addition, in manufacturing, the demand set by, for example, automotive assemblers for sequenced/kitted deliveries to precise time schedules is spreading across other industries and this also affects storage, positioning and warehousing requirements.

Online retailers, who are expected to account for 20% of total sales by 2020, are increasingly looking to locate warehouses and distribution centres close to end-markets, i.e. urban areas, precisely where shortages are most acute. And there is a 300lb gorilla in the room – Amazon, building up its Amazon Prime offer, accounted for more than a quarter of all warehouse space

rented in the UK in 2016, and was behind 82% of deals done with online retailers, according to Savills.

### **Warehousing capability problems**

In most sectors there is a growing need for warehouses to be more than mere storage sheds. They are increasingly 'factories' in their own right, in the sense that they are not just receiving, storing and despatching, but transforming. There may be many 'value added operations' from break bulk, picking, repackaging, to kitting, sequencing and sometimes even configuration/final assembly operations.

In addition, for retail supply chains in particular, the flow of returns, that must be assessed, reprocessed and returned to stock in short order, is a major and growing challenge, and one that is not necessarily best met within existing outbound warehousing, so the returns cycle will create further demand for facilities.

The results are that warehouses are now workplaces rather than storage units. They are fully and permanently manned, and require utilities such as heat, light, and water, along with proper staff facilities and office accommodation. They need to be able to support advanced IT installations, and perhaps high levels of automation. Value added activities must be accommodated, on properly planned rather than improvised mezzanines. If dealing with returns, or indeed in many multi-channel operations, it must be possible to segregate goods flows effectively.

As a result expectations for existing or new build warehousing are rising. Taller buildings with higher stacking, enhanced 'mezzanine' facilities, suitability for greater levels of automation, and an increased number of doors - and consequently, larger yards - are all on the customers' wish lists.

This is expensive kit. But at the same time, tenants (those 'anchor tenants' above) are increasingly reluctant to enter into the traditional 10 or 15 year contract – with, obviously, an upwards only rent review - for a facility. Indeed, many have known warehousing requirements that can be measured in terms of months rather than decades. Commercial uncertainties, rapidly changing markets, and the increased significance of peaks such as 'Black Friday' are among the factors involved.

### **Creating flexibility and agility**

However, all is not lost. There are for example, many businesses that are sitting on excess warehouse capacity – because their business has declined or moved, or supply chain practices have changed. They may be locked into long-term contracts which they cannot readily escape, or unable to find more appropriate facilities. There is considerable scope for a system that would make such space available to short or mid-term co-tenants or sub-tenants, to mutual benefit.

That is what Bis Henderson Space provides. We have contacts and relationships with a significant number of UK warehouse owners, operators or lessees, many of which at any time are either looking to move, or relinquish their leases, or to sublet parts of their facility on terms from a few

months to a few years. Unlike a 3PL, Bis Henderson Space is agnostic as to where our clients go – we seek out the best deal for their needs.

But Bis Henderson Space is not just a matchmaking service. Having access to the extensive Bis Henderson Group network in addition to our operational experience and marketplace insight enables us to pull together important operational components quickly and effectively, creating a cohesive solution for our clients.

We have the skills to organise the full range of logistics services from transport and warehousing to value added services and other specialist activities.

Flexible and agile supply chains are vital to businesses facing uncertain times. Bis Henderson Space can help companies create affordable flexibility, reduce their costs and overheads, and equip them with a supply chain that delivers competitive advantage.

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