Gateway to London
White Paper

The decline in quality Industrial development – is it real, and is it affecting the competitiveness of the London Thames Gateway?

The Opportunity

The current financial crisis has had a serious adverse impact on business investment throughout the UK and the rest of Europe. The combination of economic and political uncertainty and lack of access to capital has caused many would-be investors to cancel or defer new and expansion projects.

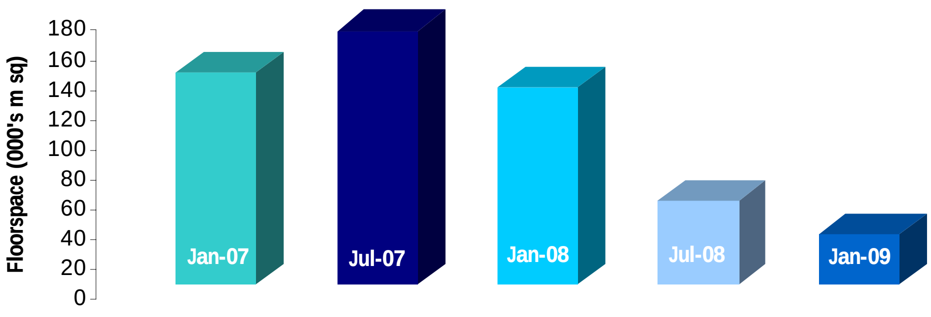
Nevertheless, London appears to be holding up better than other UK and European cities in attracting foreign direct investment (FDI), according to recent reports from Ernst & Young(1) and UK Trade & Investment(2), and is judged to be the city most likely to rebound from the current crisis. This is courtesy of its attractiveness in which to live and work, R&D capability, access to markets, telecomms infrastructure and enthusiasm for green industries.

On top of this continued resilience, London Thames Gateway has an unrivalled, yet time-limited, opportunity to benefit from the economic upturn, providing the right environment to capture growth businesses at the right time. With the Olympic Park and most of the other major venues for the 2012 Olympic and Paralympic Games concentrated in East London, there is also a unique window for economic growth through Games-related inward investment, contracts for local businesses, delivery of essential infrastructure, and leisure & business tourism. In addition, the special status of London Thames Gateway as an Eco-Region, and the plans for a Green Enterprise District are generating significant interest and the prospect of real investment.

The Issue

However, Gateway to London is increasingly concerned at the shortage of new industrial units of the quality and size required by potential investors, both now and – more seriously – into the future. King Sturge advise that the level of industrial development under construction on a speculative basis within Greater London is at the lowest level since 2001(3). At the end of January 2009, there was only 33,800m^2 under construction across seven schemes London-wide, representing a decrease of 37% in six months. Since then, construction starts have almost entirely dried up, with developers switching their focus to design-and-build opportunities.

Greater London speculative floorspace under construction



Looking at London Thames Gateway in isolation, the financial crisis has resulted in a number of speculative commercial and industrial developments being put on hold or scrapped altogether. Local agents advise that speculative development is unlikely to resume in the foreseeable future, given the lack of finance, developer nervousness caused by market conditions, and the implementation of empty rates legislation.

The impact of this will be an even more acute shortage of suitable properties from 2010 onwards, leaving London Thames Gateway ill-equipped to capitalise on the expected upturn in investment climate. Agents are advising us that take-up of properties over the last 12 months is already resulting in a lack of supply of new stock, and affecting London Thames Gateway's ability to compete against other industrial locations.

Recent business closures have resulted in an increase in vacant industrial properties. Many of these, though, are in old and poor-quality buildings which fall a long way short of expectations for most Gateway to London clients. Thus, vacancy rates appear buoyant, but do not reflect the standard of all buildings, and there are many examples of "tired" properties across London Thames Gateway that have been vacant for significant periods, and which appear to have little chance of attracting occupiers.

Industrial market demand in East London fell in Q1 2009 to one third of its mid-2008 level(4). Current demand is limited primarily to units between 1,000 and 20,000 sq ft. Recent new developments in London Riverside over the last 2 years at the small-to-medium end of the market – namely Ravenbourne's OYO scheme at Dagenham Dock and Easter Group's Easter Park scheme on Beam Reach 8, both completed in 2007 – are more or less full. Of the 19 units in the OYO development, 70% were pre-sold, and the remainder sold within 4 months of completion.

The recent launch of two new developments in Bexley – the OYO Belvedere scheme and the Belvedere Business Park, offering a range of high-quality units from 1,200 to 6,700 sq ft – is extremely welcome, but with no imminent prospect of investment into river crossings, they will not provide a viable solution to clients seeking to access markets north of the River Thames. In comparison, there are a number of larger units of between 53,000 and 232,000 sq ft within Dagenham Dock which have been vacant for over three years.

The development of the Sustainable Industries Park (SIP) will provide a significant amount of industrial and commercial space for environmental technologies businesses. However, the SIP will not accommodate every element of the environmental industry, let alone other sectors, so alternative options need to be considered.

In addition, the effect of changes to Empty Property Rate Relief, which came into force in April 2008, should not be underestimated. According to a recent survey of 600 property professionals by Lambert Smith Hampton and the Royal Institute of Chartered Surveyors[(5)], the tax on vacant commercial buildings is severely harming speculative development, Empty property rates were intended to encourage commercial property owners to bring vacant buildings back into use by penalising them for the time properties stand empty, but 85% of survey respondents accused the tax of leading to the demolition – rather than reoccupation – of unused buildings.

A declining pipeline of suitable industrial space in London Thames Gateway will produce a clear result. When the UK economy begins to recover and investor confidence returns, the requirements of potential occupiers will not be met within the region, and investors will locate elsewhere. By extension, the government's challenging targets for job creation within the Thames Gateway will be even harder to achieve.

The Solution?

Around half of the sites and 70% of the land area with development opportunities in London Thames Gateway are in public sector ownership, through the Homes and Communities Agency, London Development Agency, London Thames Gateway Development Corporation, and the London Boroughs.

Gateway to London would like to see an early commitment from landowners, both to releasing land for commercial development and bringing forward appropriate sites speculatively. An initiative similar to the HCA's proposed Equity Partner Scheme for residential development, based upon engaging private sector developers, could significantly boost industrial property availability in the sub-region.

Further help could be provided by the "de-risking" of other sites through remediation and demolishing and clearing old buildings to make them "shovel-ready" when the market recovers, and by intervention to upgrade some of the poorer quality industrial estates.

The Dialogue

This is Gateway to London's view, based on experience of the market, research, and our work with investors and private sector intermediaries. It may not accord with your own. Gateway to London is keen to initiate a dialogue with our partners, stakeholders and other interested parties to address this issue, and we are very interested in hearing your comments.

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References:

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(4) Glenny Databook Q1 2009, Glenny, June 2009
(5) Empty Property Rates Survey 2009, Lambert Smith Hampton and RICS, April 2009