



# MONTAGU EVANS TALKS...

## CAN THE SCOTTISH INDUSTRIAL MARKET COPE WITH THE SPEED OF CHANGE?

BY BRYCE STEWART AND STEVEN MCDONALD

2020 has been a challenging and polarizing period in the property sector.

Whilst retail, hotel, and leisure sectors have been hit hard by the COVID-19 pandemic the industrial sector has proved resilient and a star performer.

There has been a number of articles written about the state of the industrial market, record uptake of space, strong returns on the investment market, and rental growth still being predicted going forward.

### **BUT WHAT DOES THIS ACTUALLY MEAN FOR THE SCOTTISH INDUSTRIAL MARKET?**

Coming into 2020 there were already signs that the industrial landscape was changing with a number of significant transactions being reported in the "big box" market. In the east, we saw the former Lidl distribution depot, at just under 300,000 sq ft, being sold to SACIA; a 200,000 sq ft former Wincanton facility at Broxburn going to W.H. Malcolm; Tennents agreeing a lease of 50,000 sq ft at Newbridge; the Jabil facility at 160,000 sq ft was sold to Raython; Iceland re-gearing a lease on 250,000 sq ft at Houston Industrial Estate, Livingston and Aldi completed the construction of a £22m extension to their facility at J4 M8.

In the west, Hewlett Packard re-gearred their lease on 150,000 sq ft in East Kilbride; Lidl took occupancy of their 700,000 sq ft new distribution facility at Eurocentral; Hermes acquired 90,000 sq ft at Eurocentral and other notable deals at Eurocentral included SB Components and NHS acquiring circa 200,000 sq ft in total. Furthermore, Amazon have agreed to a pre-let at Glasgow Gateway where Muir Construction will build a 144,000 sq ft fulfilment centre.

Arguably this is now one of the most prolific periods of

industrial take-up that Scotland has seen in over two decades and has only been fuelled by the pandemic.

This however creates problems of its own in that the supply chain of available big sheds is all but dried up. Significant take-up and ageing stock is resulting in a development lag.

### **BUT WHERE WILL NEW SUPPLY COME FROM AND WHEN?**

There are a number of sites that can offer development solutions however the problem remains that many lack infrastructure and developers/funders remain risk-averse to speculation. Furthermore there is still a lack of development funding in the market, a hangover to 2008/9.

Previously we have seen intervention from the public sector through Enterprise Zones, ERDF, and SPRUCE Funding to try and facilitate large sites coming forward, however not enough is being done quickly enough in our opinion. We could see the big shed market stalling for the foreseeable future until confidence levels are high enough or intervention takes place to assist in the process.

We are aware that there are a large number of unsatisfied requirements currently within the market place that will simply not find a suitable location or property. Furthermore, a number of the requirements which are currently circulating within the marketplace are immediate and cannot wait for buildings to be constructed. One way in which this bottleneck might be addressed is where occupiers are prepared to engage early with developers on pre-lettings giving developers and funders comfort to proceed with construction.

It is highly unlikely that any speculative developments will be undertaken on any buildings greater than 40,000 – 50,000 sq ft. However, we believe that The Muir Group may be considering some speculative development at Eurocentral where they recently acquired the remaining development sites from Scottish Enterprise/Muse. Knight Group and J Smart & Co. are also undertaking



mid-market speculative developments with in Central Scotland too.

Montagu Evans have been marketing 40 acres at Eurocentral which at the time of writing is under offer to a well establish industrial developer. They are planning up to 500,000 sq ft of logistics and manufacturing accommodation. This will be on a pre-let basis however some initial discussions are ongoing with interested parties. Montagu Evans will remain as advisor on the development and agency matters going forward.



This underlying trend and lack of supply will fuel rental increases, break options not being exercised, and lease extensions will prevail within the market.

We, therefore, see an increasing and important role for lease advisory within the big box sector of the market. With yields at record levels and under further pressure, income performance will be the key for many investors over the short to medium term. With a backdrop of strong demand and chronic under-supply the conditions are present in the market to unlock significant rental

growth on rent reviews over existing stock.

We would advise landlords and tenants to engage early with their respective lease advisory agent – landlord's to put in place a plan to maximise rental value and the rental uplift on review – and for tenant's to mitigate against and budget for rental increases as best they can. An experienced and specialist lease advisory agent is important in this process with common issues on industrial rent reviews being comparability in terms of building specification, density of site coverage and the assumed lease length at the review date.

We have advised on major recent rent reviews and lease re-gears for Legal & General against Tennent Caledonian Breweries at Cambuslang (135,000 sq ft), for Axa against DPD GeoPost at Newbridge (60,000 sq ft) and for Industrial Property Investment Fund against both Saint Gobain Building Distribution at Govan, Glasgow (70,000 sq ft) and Cereform (Hovis) at Newbridge (45,000 sq ft). We also acted for the NHS on 35,000 sq ft at Wishaw and 50,000 sq ft at Hillington.

Almost all industrial and logistics rent reviews are reversionary in the Scottish market particularly in the Central Belt at prime areas such as Cambuslang and Eurocentral. Lease expiries also present the opportunity for significant rental growth for landlords and potential difficulties for tenants due to the absence of security of tenure from the Scottish leasing system. It is therefore crucial that both landlords and tenants consider their lease events well in advance with the benefit of specialist advice.

## TALK TO ONE OF THE TEAM



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