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Property Week

Industrial + logistics

ANOTHER LEVEL

Will multi-storey industrial schemes stack up? See p12

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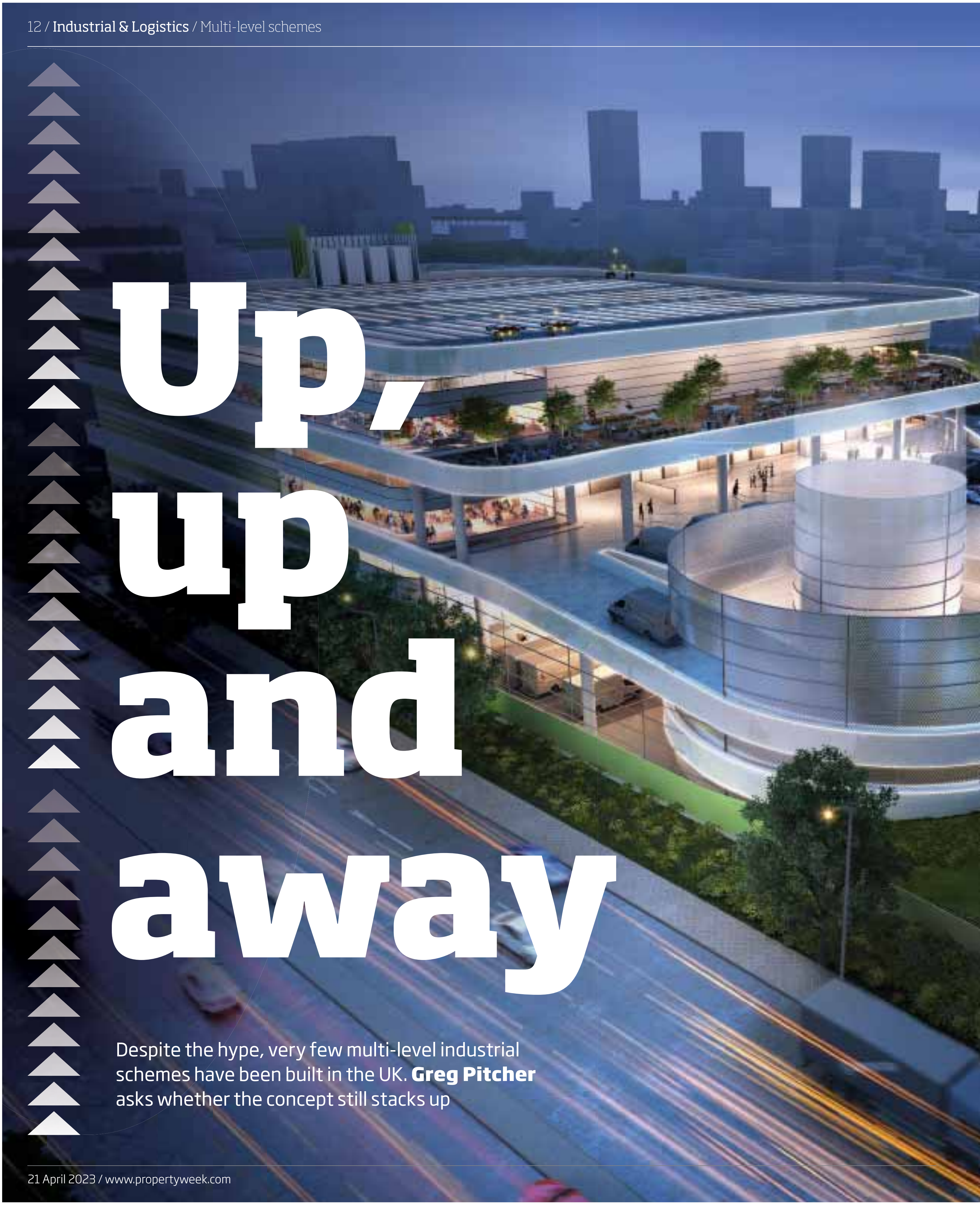
KSP's development manager Trudy Revell



Up, up and away

Despite the hype, very few multi-level industrial schemes have been built in the UK. **Greg Pitcher** asks whether the concept still stacks up

A planning application submitted last September for a mammoth redevelopment of a trading estate in east London shines a light on an innovative but developing market. The proposals include almost 350,000 sq ft of industrial space alongside up to 1,795 homes. Future residents could work minutes from their front door and buy an array of goods from businesses on their short walk home.

The first phase of the Uplands project, planned by NEAT Developments for a plot next to Blackhorse Road tube station in Walthamstow, features multi-storey residential and industrial buildings. Although no final decisions have been made, the second chunk of the development could even see homes stacked above warehouses.

While such a scheme may seem innovative or even risky today, industry analysts believe it could soon become commonplace. The trend offers an opportunity for logistics operators that are keen to gain city-centre space to serve their growing delivery markets.

"We are working with two or three investors who are increasingly comfortable with the idea of multi-level schemes," says NEAT managing director Youssef Kadiri. "Some of them have colleagues in Japan or the US who have done it before."

Two distinct types of vertical logistics projects are emerging, he adds.

"We see stacked light industrial space with goods lifts, which is perhaps suitable for last-mile logistics, and another product serviced by ramps [for HGVs] - they work well in different areas. We are seeing both types coming through and we are working on a number of schemes in early stages in both."

Kadiri says soaring rents for industrial property - and usage-protecting planning policies - have made building upwards viable. Operators are also being prompted to reconsider their estate portfolios due to myriad energy efficiency factors.

"The million-dollar question is what the yield will be," he adds. "You won't have a clear answer to that question until the market matures, but the investors we work with take the view it shouldn't be different to traditional industrial space. In fact, it should be better as you have a brand-new building."

> "You won't see five or six storeys at the start. But the land is simply not there for horizontal expansion"
>
> **Youssef Kadiri, NEAT Developments**

While there is some uncertainty about the final financial model, the economic factors are only moving in one direction, Kadiri believes. "It will become more common. You won't see five or six storeys at the start, maybe two with light industrial forming a third. But the land is simply not there for horizontal expansion.

"You also need to show politicians and planners that you have done everything you can to maximise the industrial space you get onto a footprint."

Tim Ward, chief executive at architect firm Chetwoods, says the London Plan 2021 came at the perfect time for the creation of stacked logistics.

This policy document calls for local authorities in the capital to "consider opportunities to intensify and make more efficient use of land in strategic industrial locations", as well as limiting the release of such industrial land over the following two decades. This is critical after changes in consumer behaviour sparked by the pandemic, says Ward.

"Covid-19 accelerated online sales by up to 10 years," he says. "Yet land has been put under pressure from housebuilders that outbid industrial developers. The logistics sector has had to adapt. We are working on projects where retail premises are being redesigned to have more space for product that can be delivered."

As well as high-street logistics hubs, Chetwoods is working on projects that mix industrial space and

Morden Wharf: resi and logistics space will sit side by side

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« housing in a similar vein to NEAT's Uplands.

"Quite a lot of the schemes going through planning have been led by residential developers," says Ward. "We have massive requirements for expansion of housing as well as needing to protect industrial land, so there has to be innovative thinking on how we co-locate – stacking horizontally and vertically."

New heights: Chetwoods is working on an urban co-location scheme in collaboration with industry experts

Collaboration is key

Chetwoods is looking to blend uses in a mutually beneficial way. On the Morden Wharf scheme it worked on for developer U+I in Greenwich, the architect maximised visibility of industrial uses to create a sense of "vitality and community".

Land availability pressures and planning policies are pushing developers in different sectors to collaborate in a manner that is overcoming initial hurdles to co-location, Ward says.

"The grid of one type of development doesn't necessarily follow through to another, so on early residential-led schemes, [load-bearing] transfer decks were needed for ground-floor industrial, which was expensive and compromising," he explains. "That's gone now that collaboration is happening."

Multi-level logistics will look different each time it is created, he predicts. "One scheme will have ramps for HGVs, others will only have vans on upper levels, others won't have logistics beyond the ground floor," he says. "A scheme may just go straight up or there could be multiple users [over different levels]. We see small logistics schemes below residential, or light industrial going above logistics.

"We are seeing an increase in interest. You will see much more integration of uses – residential, workplace, education, recreation and even life sciences above a working base of logistics."

While this may seem groundbreaking in the UK, industrial operators overseas have been moving into the sky for some time. Goodman Group opened a 24-storey warehouse in Hong Kong more than a decade ago and the concept is well established across the Far East.

Cost versus demand

For years, relative availability of land near transport modes in the UK – and comparatively subdued rents for logistics space – restrained the market here. Now UK land values and industrial rents have increased, build costs have, too.

This is hugely significant for multi-level projects, says Josh Pater, partner at real estate consultancy Gerald Eve. "Cost is a barrier," he says. "The delivery of these buildings is prohibitive. Raw materials are expensive and you need huge volumes of them. Engineered solutions are required. You have to deal with access via lifts or ramps, and you are putting more weight on to the ground. It takes longer, and time is money."

So, while one financial hurdle has been knocked down, another has sprung up. But Pater remains optimistic that stacked schemes will prevail.

"Our experience is that in inner-urban locations, there is strong demand for logistics property and competition for sites," he says. "Multi-level logistics will in time be a solution. Ultimately, you maximise your income potential by increasing the number of occupiers that can use the space.

"There is capital available and investment appetite for these types of assets, but cost is the biggest factor. Advances in construction and evolution in design will help, as well as a cooling of the inflationary environment."

John Allan, principal at commercial estate agent Avison Young, is confident that erosion of brownfield land for industrial use will eventually drive a flourishing market for multi-level logistics property. But he adds that the lack of existing buildings of this nature tells its own story.

"You are wrestling with a number of factors such as yard depths, column spacing, floorplates, ramps versus lifts, how smaller users fit," he says.

Allan also echoes Pater's point on construction complexities. "You can deliver a large amount of space into the market in one go and it would have to be at above-market rent, as it could cost three times as much to build [as a ground-level scheme of the same size]. If an occupier can go down the road and take a conventional product at market rent, they will. They might have to share space with others, or use ramps or lifts they haven't used before. It only becomes viable in a supply vacuum."

While such conditions do exist, mainly in inner London, these then present their own issues, says Allan. "The opportunities are constrained and you end up in underground car parks in zone one."

Given the challenges, it is understandable that a wait-and-see approach prevails. "The more that are built and traded, the more accepted they will be," says Allan. "It is chicken and egg, but the risks at present are significant." ■

Case study: SEGRO V-Park Grand Union

Amid the debate over the conditions for multi-level industrial space, some development is under way.

Warehouse developer SEGRO will this summer reach the highest point of construction of a five-storey scheme in north-west London.

The firm partnered with Berkeley's St George arm to speculatively push forward the 134,500 sq ft flexible industrial facility at a canal-side neighbourhood near Wembley.

SEGRO V-Park Grand Union was designed to maximise employment space and accessibility on the 1.7-acre plot.

Above more than 100 ground-level parking spaces, flexible industrial space will be arranged over four upper levels that can be configured as up to 20 individual units.

These will share meeting rooms, breakout areas and wellness spaces, including a green roof terrace.

The development is designed to produce net zero carbon and incorporate sustainability features such as photovoltaic cells and an internal green wall. The scheme is expected to be completed early next year.