

# OPPORTUNITIES IN THE UK INDUSTRIAL SECTOR

EUROMONEY PROPINVEST UK  
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# **AGENDA**

## **Introduction**

**What is the future of manufacturing in the UK?**

**Does demand justify industrial property investment?**

**Where are the hot locations?**

**What is Brixton's response as the UK's largest industrial owner?**

## **Conclusions**

# INTRODUCTION

- **“Industrial” misnomer – non homogenous**
- **The Cinderella asset class?**
- **Yield play**
- **Low depreciation – value in land**
- **Alternative use opportunities**
- **Strong stable performance**
  - **Third four-monthly fall in available UK floorspace to end 2004 to c. 200m. sq ft**
  - **In 2005 industrial property total return exceeded retail as best performing sector for first time since end 2001**
  - **In last 10 years industrial shown best total returns (at 12.3% p.a.) and income returns (8.8% p.a.) of all commercial sectors**

# WHAT IS THE FUTURE OF MANUFACTURING IN THE UK?

- **Manufacturing has declined as service sector prevails**  
**As % of total output manufacturing declined from 23% in 1980 to < 16% today and forecast < 14% in 2015**
- **Employment in manufacturing declined in absolute and relative terms**  
**In 1980 6.5m employed in manufacturing; 17.7m in non-manufacturing**  
**Today 3.3m employed in manufacturing; 23m in non-manufacturing**  
**By 2015 < 3.0m and 25m respectively**
- **Reasons**
  - **Major manufacturers organise production on global basis e.g. in low cost countries e.g. Far East, Eastern Europe**
  - **Increasing propensity for UK manufacturers to locate to lower cost overseas locations**
  - **Less inward large scale manufacturing investment**

# **DOES DEMAND JUSTIFY INDUSTRIAL PROPERTY INVESTMENT?**

- **YES, but the locations and type of user demand will continue to change**
    - **Most demand now driven by requirements for storage, distribution, logistics (Brixton has 100% more property in this sector than in production)**
    - **Demand for smaller industrial units driven by servicing of conurbations e.g. trade parks**
    - **But manufacturing still important e.g. car industry (Nissan – Sunderland: Honda – Swindon), food & drink and final assembly / customisation of overseas mass produced goods**
    - **Increasing demand for very large distribution units – in 10 years from 1995 take up of 100,000 sq ft + units increased by 117% to over 14m sq ft in 2004**
- Driven by centralisation – economies of scale reducing inventory, property and labour costs. Coincided with falling transport costs.**

– **Maybe future medium term trend to 100-250,000 sq ft rather than 500,000 sq ft “Supersheds” as**

- **Road transport costs increase – more congestion – less predictability – distances served reduced**
- **Shortage of sites**
- **Planning resistance particularly as economy has improved**
- **Operational risk of centralisation**

– **The Future?**

- **Smaller scale regional distribution centres – shared users**
- **City hubs e.g. multi user consolidation centres e.g. Exel at Heathrow for on airport retailers or in Bristol for Broadmead Shopping Centre**
- **Rail and port facilities more important due to increase in container imports**

# WHERE ARE THE HOT LOCATIONS?

- **Demographics and Economics**
  - London and the South East has 26% of the UK population 34% of output but only 8.5% of the land area. Population in Greater London due to increase in next 10 years by 11%. Next largest area for output is North West at 10%
- **Impact of infrastructure**
  - Terminal 5 increasing passenger and cargo capacity at Heathrow by 50% (Heathrow already accounts for > 50% of all the UK's airfreight)
  - New container ports e.g. London Gateway at Shell Haven
- **PMA Forecasts: prime industrial rents**

Park Royal rental growth top @ 3.7% p.a. 2005-09 and Heathrow second @ 3.6% p.a.  
(Manchester and Birmingham @ 1.7% p.a.)

REFL using the IPD rental value index estimate the UK as a whole will see industrial rents grow 2.3% p.a. 2005-2008.

# **WHAT IS BRIXTON'S RESPONSE AS THE UK'S LARGEST INDUSTRIAL OWNER?**

## **BRIXTON**

- **Invests where there are supply/planning constraints**
- **Always consider alternative uses**
- **Provides “flex-space” and a range of size offerings**
- **Concentrates on conurbations – London, Manchester, Birmingham**
- **Considers locations where structural change may be positive – transport / infrastructure improvements e.g. Heathrow**
- **Provides customers with priced flexibility and quality and economic services**
- **Builds brand and customer loyalty**

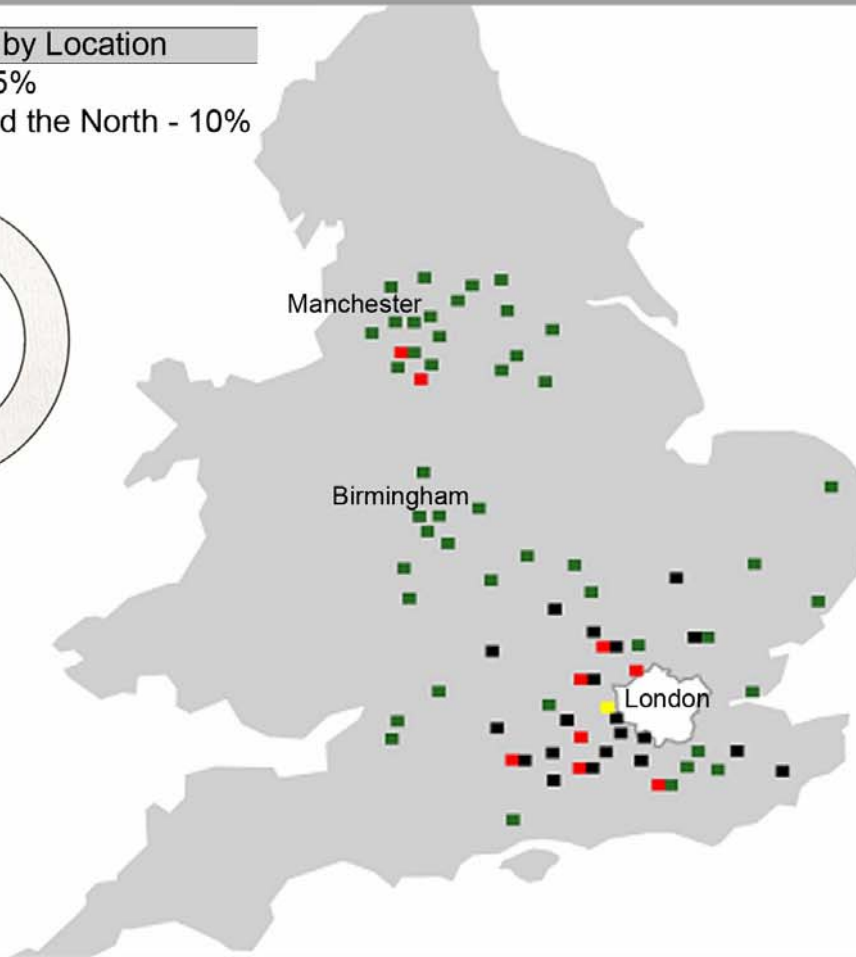
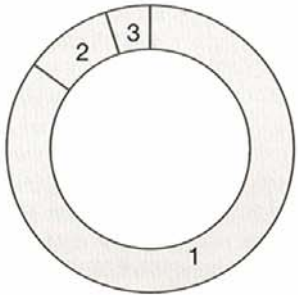
## **BRIXTON-OVERVIEW**

- **The UK's leading publicly quoted company specialising in providing industrial and warehouse property that offers lease flexibility and high quality customer service**
- **Owns and/or manages 25m sq ft in 2600 units (Brixton's share worth £2.0bn+) in 200 locations**
- **85% of the value in the South East with 60% in Greater London (including the key Heathrow and Park Royal markets)**
- **Increased customer satisfaction (77% to 85%) from B-Serv (Brixton's wholly owned subsidiary) in 2004 and strong levels of "repeat business": 50%+ of all lettings are to existing customers**

## BRIXTON'S PORTFOLIO

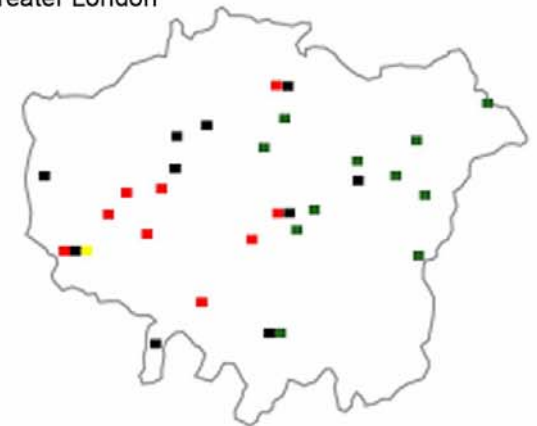
### Value of Portfolio by Location

1. South East - 85%
2. Manchester and the North - 10%
3. Midlands - 5%



	Value
<span style="color: red;">■</span> Brixton	68%
<span style="color: black;">■</span> Equiton	5%
<span style="color: yellow;">■</span> Big Box	6%
<span style="color: green;">■</span> Industrious	21%

### Greater London



## BRIXTON PERFORMANCE CASE STUDY

- Brixton purchased 2.7m sq. ft. of space in nearly 200 units at Trafford Park, Manchester in March 2004
- The performance shown below demonstrates the key to our business – driving rental growth through a hands-on and customer orientated approach. To date we have let more than 300,000 sq. ft. in over 30 separate transactions
- In the 9 months of ownership to Dec. 2004 customer satisfaction with the property management service provided by B-Serv also increased from 64% to 93%.
- This example is typical of Brixton stock selection and its abilities to quickly and effectively enhance acquisitions

<b>Valuers' ERV growth</b>	<b>Mar 04 to Dec 04</b>	<b>+3.3%</b>
<b>Outperformance on lettings</b>	<b>Increase over ERVs on 04 lettings</b>	<b>+ 8.2%</b>
	<b>Increase over ERVs on Mar 04 to Mar 05 lettings</b>	<b>+ 9.3%</b>
<b>Capital value growth</b>	<b>Surplus Mar to Dec 04</b>	<b>+ 7.4%</b>
	<b>Price paid at Mar 04</b>	<b>£101m</b>
	<b>Value at Dec 04</b>	<b>£113m</b>

# CONCLUSIONS

- **The market is dynamic. Manufacturing whilst still significant in some locations – particularly final light assembly – has generally devolved to distribution based-service sector activities**
- **Flexibility of product, leasing and quality and value of customer-focused approach is paramount**
- **The relativity of different locations changes at the margin but the planning system and the demand-pull of the major conurbations especially London – and the Heathrow effect – leads to continued dominance of such areas**
- **The stable, relatively high yield, and longer term performance has become sought after by institutions and private investors**

- **The winners in the industrial sector should**
  - **Remain specialist and pro-active**
  - **Continue to concentrate on areas of growth in the UK**
  - **Add value through customer focus**
  - **Utilise financial strength, market position and speed of action**
  - **Drive growth through occupational outperformance**
  - **Build on resilience of industrial/warehousing sector**
  - **Expand development activity in line with tenant demand**
  - **Consider the likely positive effect of UK-REITS**