GUEST ARTICLES

ASTUTE SECTOR AND STOCK SELECTION COUPLED WITH DYNAMIC ASSET MANAGEMENT IS KEY TO DELIVERING SUPERIOR INCOME RETURNS

Antony Thesiger MRICS, Director, South Street Capital

Headwinds continue to blow across the UK real estate markets, directed by economic forces and fuelled by ongoing geopolitical tensions in Europe and the Middle East.

Having seen property yields rise over the last 12 months driven by an increase in gilt yields, it is likely that any property yield compression this year will be minimal. The spread between property yields and the risk-free rates remain close to historic highs, and with debt significantly more costly, attractive levered returns are more difficult to achieve.

Most research houses agree that in the short-term, total returns will be driven by income rather than capital growth.

Investors are therefore acutely aware that sector and stock selection along with choosing an experienced and astute asset manager partner, is key to maximising returns.

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WHAT IS MULTI-LET INDUSTRIAL (MLI)?

Forming an integral part of the wider industrial sector, the best performing real estate sector over a 30-year period, the MLI sector has particularly over the last decade, provided investors with strong returns and a diversified and granular income base.

Unlike the Logistics market, MLI's provide multi-purpose industrial space, which appeals to a wide range of end users from manufacturing to storage and logistics.

A structural shift in demand has taken place, primarily driven by ecommerce and the significant growing number of SME businesses in the UK. According to the Office for National Statistics the number of SME's

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GUEST ARTICLES (cont.)

in the UK has increased by 2m (c.60% increase) from 2000 to 2022. Turnover for SME's was £2.1 trillion in 2022, 51% of the total turnover of private businesses in the UK.

It has also been a direct beneficiary of the widespread increase in parcel delivery. With a significant reduction in these parcel delivery times, demand from parcel operators for units close to urban areas and transport systems has significantly increased.

The demand/supply imbalance has led to a sustained period of rental growth. Despite this growth, rents are still very affordable with most occupiers only spending 2% - 3% of their annual turnover on rent.

Unit sizes typically range from 500 -10,000 sqft arranged in terraces, let to multiple tenants and ring fenced on secure estates, managed by the owners/operating asset managers.

Estates usually comprise between 5 - 50 units, with leases being taken on a 3 - 5 year term, with rents ranging typically between £5 - £10 per sq ft, depending on the quality of space and location.

Build costs and tenants' amenity expectations are also significantly lower in MLI's to other asset classes, although there is still a sharp focus on sustainability, with ESG credentials now a permanent item on corporate agendas.

The MLI sector offers attractive returns, a diversified income base and the ability to drive value through dynamic asset management. Its granularity of income is also an attractive proposition for lenders.

The MLI sector has for some time now carved its own niche in the UK real estate markets and one which continues to be resilient in tough market conditions. Current pricing levels coupled with favourable market dynamics indicate that this sector is one to seriously consider.

Antony Thesiger MRICS, Director, South Street Capital

South Street Capital (SSC) is an independent, specialist investor and asset manager of UK commercial real estate, with offices in Central London and the North East of England.

SSC works on behalf of institutions and family offices from all over the world, delivering an agile role from the beginning to the end of the real estate life cycle, including advisory, acquisition, development, asset management and disposal.

Our team is made up of senior executives with substantial experience built over many decades across, and including, different sectors, geographies and market cycles.

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