**Getting the Balance Right**

**One of the most important challenges facing major urban centres around the UK is how to balance the provision of residential, industrial and logistics real estate when all three sectors are experiencing exceptional levels of demand.**

The UK’s population is growing and so our town and cities clearly need more homes, but these have to be served by an effective supply chain which includes the myriad of businesses that operate out of multi-let industrial estates across the country.

As the demand for logistics and industrial facilities remains at unprecedented levels, values continue to be progressive while residential development is also being driven forward by the burgeoning build-to rent sector. What we’re seeing in many locations is a ‘race of values’, and this competitive picture is further augmented by the demand for retail parks and retail warehousing which has enjoyed new popularity – and relevance – during lockdown with the evolution of shopping habits.

Looking back a decade or so, the relative values of industrial and retail warehousing assets were established but the burgeoning need for residential and logistics real estate has brought a new dynamic to the relationship between the different asset classes which serve urban locations.

This competitive picture has brought some market tensions. In the past decade, such was the extent to which industrial estates around London were being snapped up for residential development that there were calls to protect the ‘natural habitats’ of the businesses that enable our conurbations to function by doing everything from sandwich-making to dry cleaning and panel-beating. Of course, any form of protectionism tends to be anathema to the free working of our real estate markets but planning policy clearly has a role to play in getting the balance of development right – especially as we emerge into a post-pandemic world which will see a shift in how it operates.

In the quest to ‘Build Back Better’ after the pandemic, the planning system is providing more latitude as we’ve seen with the arrival of Class E and also a general presumption in favour of residential development. These policy shifts are generally to be welcomed. However, in terms of how development is managed on the periphery of our towns and cities, a stand-back may be needed to reappraise how we can achieve the best balance.

If planners have a role to play then property developers and investors can also come to the party by bringing imagination to the situation. We’re already beginning to see a more innovative approach through the blending of uses whether it’s ‘beds-and-sheds’; first floor use within retail parks; or realising the growing role that retail parks can play in serving the logistics supply chain.

In this context, the creation of taller developments is relevant. As logistics rents remain progressive, creating multi-storey facilities becomes increasingly viable while build-to-rent development is most sustainable in terms of returns when land and management costs are minimised through a high-rise approach. For retail parks, the exciting opportunity, alongside multi-storey, is to capture some of the inherent value of servicing last-mile fulfilment.

As a fund which focuses on assets that serve the supply chain, these trends are of central importance to us and we don’t see them as just presenting challenges. From a different perspective, it’s very positive to own assets for which there is strong and varied current occupier demand, and which may also hold potential for other uses in the future. Logistics, industrial, retail park and residential values are all progressive and the tighter value differential among these asset types brings a wider range of options for an active asset manager like ourselves.

Recently, our fund sold an office asset in Nottingham which will be redeveloped into student accommodation. The deal will provide good returns for both parties and also improves the contribution that the site makes to Nottingham and the different types of property demand that it needs to meet.

This type of transformation of asset purpose and the blend of uses within developments also better serves wider ESG goals to enhance urban environments and make a positive contribution to communities. Whether it’s putting students close to where they learn; providing people with good homes close to their place of work; or making the supply chain more efficient; each delivers a range of ESG-orientated benefits.

All of these factors present a much more layered picture for the real estate asset manager but it’s one that we relish. The potential for value enhancement is far greater if the options you have are wider. We look at assets in a broader context than what they are simply in terms of rent, value and configuration. For an asset to work with, they need to fit into the wider purpose of our fund and also their setting in that particular location and economy.

This ‘today-and-tomorrow’ approach enables us to achieve returns now, but also see where the future value potential may be. Having that awareness is key to implementing asset management strategies which enable future possibilities and respond to the changing balance of the real estate landscape around UK conurbations.

*Tim Legge is Fund Manager of the Tritax Property Income Fund which delivers an active long-income approach through a portfolio which has a predominant focus on logistics and industrial assets that enable the UK supply chain.*