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Lights, camera, action: inside the booming film studio sector

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The key opportunities for investors and developments to watch

News last week that production of the new Lord of the Rings television series will be moving from New Zealand to the UK after its first series says a lot about both the healthy state of the UK film industry and why real estate investors are taking note.

Demand for studio space has surged in recent years thanks to the insatiable growth of streaming giants like Netflix, Disney

and Amazon who are investing billions to create new TV series and films.

As a result, there is a growing shortage of space. Lambert Smith Hampton estimated last month that 2.3m sq ft of new space would be needed by 2033.

This has sparked the interest of leading real estate investors like Blackstone, which struck a deal earlier this month with Hudson Pacific to invest more than £700m in the development of a mammoth new studio complex in Broxbourne, Hertfordshire.

But how do other investors and developers cash in on the studio boom, and what are the main opportunities that look set to emerge?

Conversion opportunities

The most straightforward way into the market is through conversion of existing warehouse space. Owners of industrial and logistics property around Greater London are doing well as it is, but there could still be merit in marketing their assets for use as studios. If landlords have vacant buildings with high floor to ceiling heights and relatively few columns, they could be turned into basic studios without spending a fortune.

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>
> CHRIS BERRY, LSH

Developers may also want to consider designing new buildings so that they can be used for both logistics and film production.

"The easiest way [to get exposure] is the warehouse conversions at the moment. Pretty much every vacant warehouse that's coming on the market in west and north-west London has some very significant studio interest," says Chris Berry, head of media at LSH.

The attraction for landlords is that studios attract higher rents, potentially double what could be achieved for logistics. However, lettings are short – typically six to nine months for a feature film – and there are considerable costs involved that eat into the rental premium.

JLL director Michael Davis says one of his clients likened studio ownership to being "in the hotel business except our rooms haven't got any windows".

Blackstone-backed: Sunset Studios, Hertfordshire

Hollywood production house Sunset Studios, which produced *La La Land* and *When Harry Met Sally*, made headlines this month with its announcement of a 91-acre production site in Broxbourne that could create 4,500 jobs. With Blackstone and Hudson Pacific on board, there is no question over the funding for the project, which is expected to require investment of more than £700m. The council is also eager to promote the area as a location for film studios, so it appears highly likely to go ahead.

The only question is over its size. But with between 15 and 25 sound stages, subject to planning approval, it is expected to be one of the UK's largest studio campuses whatever happens.

Another common comparison is flexible offices. CBRE senior director Simon Calvert says: "It's like the service office market

in many ways because you've got to work the market, bring people in, make sure you keep on top of your voids".

One flexible office provider is even looking to muscle into the market. Purpose has taken on the former UK headquarters of Jehovah's Witnesses in Mill Hill with a view to turning the 200,000 sq ft building into film and TV studios.

Comparing the staffing needs with its serviced offices, Purpose founder Dan Cohen says: "This kind of [film studio] operation needs probably four times the level of staff [...] when things are fully operational it's probably going to be a team of eight people: security, building managers, repair and maintenance, and contractors that will come and work on particular productions depending on what they need."

Growing pipeline of large developments but not everything will be built out

The other way to enter the market is through the development of large-scale, purpose-built studios. Following in the footsteps of the US, this is increasingly the direction that the market is going and there are a growing number of significant developments planned, particularly around London and the South East.

Owners of large sites that would struggle to get planning permission for logistics may see studio development as an attractive alternative. Planners will often look on it more favourably because studios bring in large numbers of jobs.

However, getting a scheme off the ground is not a straightforward business. For starters, modern American style complexes are expensive to build – double or triple the cost of building warehouses on a square foot basis. And then, developers have to gain planning approval and secure funding, which is rarely easy given that prelets are out of the question.

There are opportunities for deep-pocketed investors to get into the market by funding one these proposed schemes. They have plenty to choose from. LSH estimates that the total pipeline of schemes with planning permission is now 1.85m sq ft and there is another 3.7m sq ft of proposals at various stages of development.

Bucks blockbuster: Marlow Studio, Buckinghamshire

It's still early days for this mega project, which would see 85 acres at a former landfill site outside Marlow developed into a sprawling studio campus. Public exhibitions took place earlier this month, but the planning application has not yet been submitted, and developers Dido Property will need to secure funding.

On the plus side, the Buckinghamshire location, near Pinewood, is a good one, and at 1.5m sq ft it has the potential to rival Broxbourne in size and create up to 5,000 jobs.

ever, it is unlikely that all this will be built out. In prime ions, it can be challenging to secure planning permission

and in more secondary locations, it is typically easier to gain planning approval, but then it is harder to line up funding.

In the South East, where much of the new development plans are concentrated, proximity to London is seen as an advantage because the crews tend to live in London and will prefer to work on projects that are close to home.

Developers are also mindful of the danger of flooding the market. Even though demand for production space is growing fast, the overall size of the market is relatively small, and oversupply remains a possible danger.

“The big players will drip feed space into the market and aren’t going to devalue their own stock,” says Davis.

Film studios are sometimes planned as part of large mixed-use developments, often as a way of introducing a workspace element into the scheme and creating a buzz around the project. But unless the economics are clear cut, such plans don’t always come to fruition. For example, in late 2019, Knight Dragon dropped plans for a 500,000 sq ft film studio at Greenwich Peninsula in favour of more housing and office space after approval was granted for another large studio at Dagenham East.

Knight Dragon dropped plans for a 500,000 sq ft studio development as part of its Greenwich Peninsula scheme in 2019

One way to counter the danger of oversupply is to start small or include complementary uses. This is the approach of The Creative District Improvement Company, which is developing new studios at Twickenham Studios alongside flexible workspace and a boutique cinema, plus a new café and rooftop bar. It is also working with Capital & Centric to redevelop the Littlewoods building in Liverpool and Quinn Estates on its plans for a 200,000 sq ft studios complex in Ashford, Kent.

Co-founder Piers Read says: “One of the justifications for building a lot of space is there’s a scale of economy. The more you build, the better the returns. But I think ultimately, you have to be mindful of where the market is going. Is what is being developed answering the need in 10 or 15 years’ time?

“We are all about making places that have complementary uses classes, brand new creative neighbourhoods or campuses that are smaller in scale and which have other income streams.”

Another alternative route that developers are exploring is the creation of temporary studio space.

Davis says: “Temporary stages can be built in three months so there is a game to be played in getting them full and seeing how it goes. That opens up the market to a lot of people.”

The most prominent example of this is Shinfield Studios where four stages are currently being built under a temporary consent. This could prove to be a stepping stone to a larger scheme. In June, a planning application was submitted for a larger scheme comprising 18 sound stages spanning more than 1m sq ft.

Big ambitions: Shinfield Studios, Berkshire

Just across from the University of Reading's Thames Valley Science Park, former Pinewood commercial director Nick Smith has teamed up with Los Angeles-based investor Commonwealth Real Estate to build four provisional sound stages totalling 160,000 sq ft. Planning permission was granted in March and building work is underway but under the terms of the consent the land must be "restored to its former condition" in 2026.

Smith is now hoping to convert the temporary scheme into something far more ambitious. A planning application has just been submitted for a gigantic permanent scheme, with 18 sound stages, workshops, post-production offices and a cinema.

More funding will be needed to finance the development. Making a success of the temporary setup should help to convince investors, but it remains to be seen whether such a studio would be able to compete with locations that are closer to London.

Sector attracts new investors

As the market develops, more investment opportunities are likely to emerge. One of the most hotly anticipated is Pinewood, which owns both Pinewood Studios and Shepperton. Aermont bought the company in a £323m take-private deal in 2016, and has invested considerable sums since expanding the business, and securing major deals with Amazon and Disney. Industry sources say they expect Aermont to at least double its money on any exit.

Giant expansion: Pinewood South, Buckinghamshire

Aermont's Pinewood Group is planning to expand its existing Pinewood West, Pinewood East and

Shepperton studios (the latter is where Amazon is moving production of its *Lord of the Rings* TV series). However, the key site to watch is Pinewood South, a proposed 77-acre development on green belt land, comprising a 350,000 sq ft visitor attraction as well as new production facilities.

A decision on the planning application is expected by the end of the year. It is considered likely that Pinewood will be successful, but it is no forgone conclusion. The plans have run into opposition. Local MP Joy Morrissey claims the complex would have "a significant negative effect on local residents, the local environment, and the pace of development across the south of Buckinghamshire."

The most natural investors in the sector are private equity firms because of the uncertainty that comes with short-term lettings, with assets typically valued using a combination of a discounted cash flow and an EBITDA method.

But that is starting to change. Earlier this year, Aviva Investors bought out its joint venture partner Crest Nicholson to take full ownership of Longcross Studios, which completes later this

Agents report that other institutional investors are showing an interest in the sector as well. They are becoming more comfortable with operational real estate and are attracted by the growing trend for longer leases. The streaming giants like Amazon and Netflix are increasingly open to securing space for more than just one TV series or film, although leases still tend to be for no more than a few years.

It remains to be seen whether this is a trend that is set to endure, or whether it is a product of the current shortage of space. For now, few are concerned that the market will suddenly become oversupplied. Not all the proposed schemes will be built and there is no sign of any slowdown coming in spending on new films and TV series, providing confidence that demand will remain strong.

Increasing competition in Europe

The only real danger from a UK perspective is business moving to other counties. JLL's Davis says the UK has enjoyed "the whip hand" over other European countries because it has a large crew base. This is likely to remain an advantage for the UK, but there are clouds on the horizon.

New EU rules requiring that 30% of on-demand content be European is driving greater investment in continental Europe, and could result in TV series being produced in Europe that would have previously been made in the UK. The Republic of Ireland is one country that could stand to benefit more than most.

"Watchout for Ireland – it is in the EU, it has more generous tax breaks and the Americans love it," says Davis.

Just this month, US-based Hackman Capital, one of the biggest specialist investors in studio space, snapped up two of the largest film studios in Ireland – Ardmore in Wicklow and Troy in [illegible]rick. The deal was a vote of confidence in the future of the [illegible]or in Ireland, but it doesn't mean Hackman necessarily

expects Ireland to prosper at the UK's expense. Last year, it bought Eastbrook Studios in Dagenham, where planning permission is in place for 12 studios, and is thought to be on the lookout for other opportunities as well.

So long as the streaming boom continues and spending on new TV series and films carries on growing, there is every reason to imagine that even if other European countries start to catch up with the UK, everyone will still benefit.