

How UK Mill owners can make more than paper gains. It's time to get the competitive edge.

The redevelopment potential of UK paper mills now presents paper manufacturers with a capital opportunity to fund proactive responses to their industry's mounting market challenges and so gain a fresh competitive edge.

UK paper mills tend to be near town centres, have a water frontage and occupy sites large enough to present valuable planning advantages. These and other attributes can help to generate a favourable sale value reflecting the potential for residential development. The capital sums released can then fund a parent company's plans to rationalise, relocate or otherwise upgrade the core paper-milling operation.

Take three recent examples of capital sums achieved:

- NB Real Estate advised on Sappi's 13-acre former Nash Mills site at Hemel Hempstead, Hertfordshire, bought unconditionally for £25 million by residential developer Crest Nicholson
- DS Smith's 40-acre site adjacent to the River Thames at Taplow, Berkshire, fetched over £30 million
- Arjo Wiggins' 10-acre Glory Mill site in High Wycombe, Buckinghamshire, sold for £10.5 million. Unicorn Homes bought the company's facility at Dartford, Kent, for a 100-dwelling residential scheme

Capital returns on such a scale demonstrate that excellent opportunities do indeed exist for paper manufacturers, properly advised, to review the prospects of disposal of their existing facility. This allows them to support relocations or to consolidate operations into newer and more productive facilities. Furthermore, the present planning regime offers paper makers another valuable opportunity, to make representations through the Local Development Framework (LDF).

These representations may be for an existing site to be considered for development and/or for a new site to be identified for paper making.

NB Real Estate is well positioned to advise paper manufacturers of the opportunities, both in the disposal of existing facilities and for relocation to new facilities elsewhere in the UK.

The Italian conglomerate Sofidel's Intertissue facility at Port Talbot in South Wales is a recent example of a new paper mill being built. Supported by the Welsh Development Agency, the Intertissue facility shows that there is potential for establishing large-scale, modern paper mills in the UK regions where labour costs may be lower and grant assistance available.

Companies may also wish to consider consolidating some of their old facilities into new and more productive sites.

There is more opportunity to fund these and other initiatives than in years past, an opportunity created by the governmental drive for residential development to cope with changes in UK demographics. Existing paper mill sites, some dating back to the early 1900s exhibit many characteristics that are an asset when it comes to supporting higher-value future residential development.

These key characteristics of paper mill sites can include:

1. Buildings that are often old and sometimes dilapidated, and so have little chance of re-use by another employer
2. Historic listing appeal
3. A river or stream which can create an attractive water frontage, without necessarily entailing a high flood risk
4. Mills are often situated at the edge of town centres and in or close to conurbations, and are therefore attractive to residential developers
5. Proximity to large power sources, offering cost-effective supply
6. Sites are frequently large enough for planners to consider them as self-sufficient and self-contained



Former SAPPI Mill - Hemel Hempstead

The Taplow, Glory Mill and Nash Mills sites exhibit a combination of these characteristics which serve to make these paper mills ideal for residential redevelopment.

The Challenge

Rising energy prices, as well as labour costs and taxation have challenged the profitability of paper mills in the UK. Indeed, transport costs and the high price of fuel here compared with those faced by competitors in France, Germany and Italy have put a brake on UK manufacturing businesses in general.

Few new mills are being opened in the UK, Intertissue's Port Talbot mill being a rare example. Investment in existing facilities often has to be scaled back. It can cost between £250 million to £300 million to set up a new mill that includes a paper machine, a level of investment that increases the pressure for the payback period to be as short as possible. There are now 60 paper mills in the UK, of which 17, barely a quarter, now produce 70% of UK production (CPI). This dominance is largely due to the size of these mills, all 17 of which produce over 100,000 tons per year each. Of these 17, 12 have a capacity of over 200,000 tons, and four of over 300,000 tons a year. Interestingly, these four account for 30% of UK production.

Of the other 40 or so UK paper mills, few have a maximum capacity of over 100,000 tons per year, which may suggest that the market is difficult for mills producing less than that amount, unless they are able to market a specialist premium product.

17 mills out of a total of 60 account for over 70% of UK paper production

The UK government, it is clear, sees the UK as a service rather than a manufacturing economy, and has done so for at least 20 years. Despite significant improvements in technology, it remains difficult to survive in UK manufacturing. Indeed, within the paper making industry there is speculation that the UK can support no more than between 30 and 35 mills. Even more consolidation may be on the way, it seems.

That said, the capital returns available from the disposal of some paper mills for future residential development present an excellent opportunity for manufacturers, properly advised, to secure efficiency gains by consolidating operations into newer and more productive facilities, or by relocating to parts of the UK where costs are lower and incentives higher.

It would be enlightening to see UK manufacturing (and the paper industry in particular) fight back and re-emerge. As we have seen recently, the UK economy can't hold up with all its eggs into the financial services sector 'basket'.

NB Real Estate's market experience makes it the ideal adviser for paper manufacturers who wish to examine the options open to them through redevelopment, and to secure the maximum capital receipts from the considerable opportunities which are now open to UK mill owners.

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There have been paper mills in the UK since the 15th century, and by 1821 there were 560 in England and Wales. Paper was still hand-produced, so output was limited until the 19th century brought mechanical innovations such as John Dickinson's cylinder mould machine (1809).

As paper manufacturing became more efficient, so the number of mills in England and Wales almost halved to 300 in England and Wales by 1900. Mechanisation created a shift away from small, rural mills to fewer and bigger factories in or near the towns, which were closer to the raw materials and customers. By the mid 1950s, paper industry employment peaked at about 100,000 in 250 mills, producing nearly 4 million tons per year (imports: 1.5 million tons).

By the 1980s, however, imports exceeded UK production. In 2002, for example, UK production peaked at 6.2 million tons with 7.5 million tons imported. The number of mills fell to 84, and employment to 18,000. In the last five years, production has shrunk to about 5.5 million tons. While efficiency has improved, the UK paper industry – like other manufacturing sectors – remains less productive than that of France or Germany.