At a Glance

NATIONAL BIG SHED LOGISTICS MARKET

December 2014

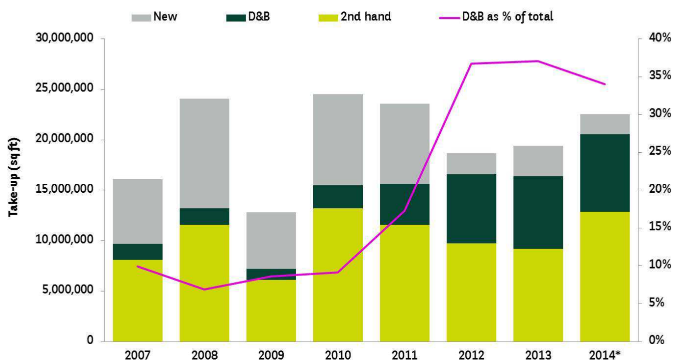
HEADLINES

- Take-up to date has reached over 22m sq ft, surpassing total take-up in 2013 already by 16% and with a further 1.5m sq ft of space expected to transact before year-end.
- We have seen rents move on as the supply, or lack of it, forced many occupiers to pay premiums on design & build (D&B).
- Prime yields sharpen 75bps throughout 2014 to stand at 5%, with further downward pressure anticipated.

TAKE-UP AND DEMAND

- Logistics take-up has rebounded in a way that nobody anticipated given the lack of built supply in the market. Take-up has already bettered 2013 and we could yet see the largest volume of space transacted since the downturn, pushing past the 24m sq ft transacted in 2010.
- Year-to-date, it has been a pretty exceptional year for the occupational market. Retailers have once again led the way and have accounted for 44% of space let thus far, with Amazon, Primark, Waitrose and this week Next, all signing for space of c.1m sq ft.
- Whilst there is no doubt that this demand has been driven by D&B, with 4 of the biggest 5 deals being of the D&B nature, the 2nd hand market has also had a strong year as the lack of new space has ensured occupiers have had to look at options that would have previously been disregarded.
- Amazon took Bigfoot in Daventry (995,957 sq ft) which was on the market for less than 6 months, whilst buildings that have been on the market for years, such as Langley 255 which had stood empty since completion in 2006, have also let.
- Regionally, as ever it is the Midlands that has led the way and have accounted for over 40% of demand by region, with the North West coming in second with a 14% share.

D&B and 2nd hand all that's left...



Source: BNPPRE Research

*As at mid-Nov

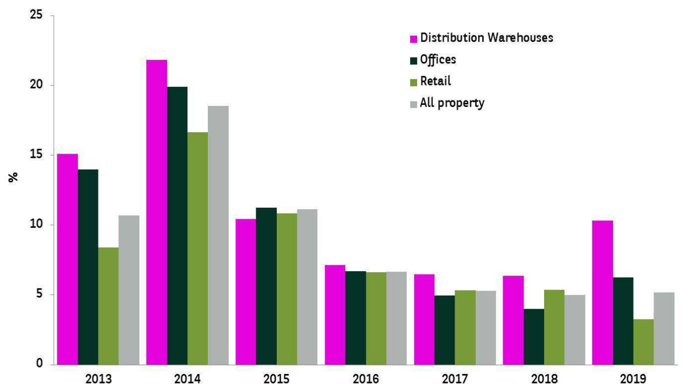
RENTS AND SUPPLY

- The supply of logistics space has continued to tighten throughout the year, but as mentioned occupiers have satisfied themselves either down the D&B route or via 2nd hand lets.
- There is currently c.14m sq ft of prime logistics space left on the market but developers have responded to the cry for help.
- Goodman just this week announced a partnership with Anglesea Capital to develop 930,000 sq ft over the next year.
- Prologis pushed the button on their spec schemes a lot earlier and, for example, the 310,044 sq ft DC1 Prologis Park at Dunstable is now ready and available for occupation with other schemes at London Gateway and Northampton available shortly into 2015.
- Perhaps a real sign of the demand and continued confidence in the market are the speculative developments taking place in the North West with Venus 110 at Knowsley Industrial Park and Evander Properties developing 183,000 sq ft at Revolution Park in Chorley.
- Meanwhile, rents have certainly moved on with north of £6 per sq ft broken in the Midlands for the first time since 2007, as UPS took a pre-let on 152,000 sq ft at IM Properties' very successful Birch Coppice scheme.
- Rental growth has certainly been in evidence across the country as the shortage of prime supply has seen upward pressure on rents. Quoting rents on Grade A space, outside of London and the South East, are £6.25 in many instances, up from £5.25-£5.75 at the start of 2013.

INVESTMENT

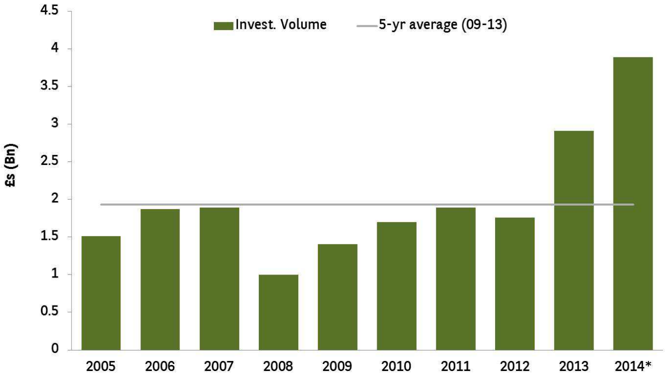
- By late 2012 many forecasters were pointing to the logistics sector as the asset class of choice for 2013 and 2014, with Total Returns in excess of the other property classes.
- Investors wasted no time and piled into the sector during 2013, in a previously unseen way, that was until this year.
- Investment volumes for 2014 surpassed those of 2013 by the end of the half year and the appetite for prime logistics has not relented since.
- Investment rationale has been driven by rental growth, structural shifts in retailing habits and the defensive nature of the industrial sector.
- Year-to-date, investment volumes are up 121% on final 2013 figures with c.£3.9 bn targeting the sector so far. The majority of the money has come from specialist industrial investors and UK Institutions, who have accounted for 66% of the capital deployed, whilst overseas money has not been far behind.
- This year's 5 biggest spenders, Tritax, Oaktree, ProLogis, LondonMetric and Blackstone have accounted for nearly one-third of all transactions by volume year to date, with Tritax spending the best part of £360m, nearly £100m more than their closest rival, Oaktree.
- Key deals and under offers include:
  - ⇒The brand new and reversionary Bunzl and DAU Draexlmaier units at Birch Coppice, which have 9.75 years unexpired lease remaining and are under offer at c.£34.14m, reflecting 5% net initial yield (NIY).
  - ⇒Toyota at Magna Park, which was built in 1991, has 6.2 years remaining to Toyota GB ltd is under offer at c. £17.75m, reflecting 5.3% NIY.
  - ⇒'Best in class' example is the Sainsbury's unit at Waltham Cross, with 15.75 years unexpired to Sainsbury's. A rare, reversionary, modern unit which was purchased by Prologis in September for £110m, reflecting 4.66% (NIY).

Total returns for distribution warehouses show outperformance over next 5 years...



Source: BNPPRE Research

Record year for investment volumes...



Source: Property Data; BNPPRE Research

*As at end Q3

THE ANALYST'S OUTLOOK

Robert Taylor, Associate Director of Research, provides his outlook for the remainder of 2014 and into 2015...

- What a year it has been for the logistics sector, investment volumes have sky rocketed, whilst take-up is on course to deliver it's best year since the downturn, despite the much touted 'chronic lack of supply'.
- The occupational story has once again been driven by the retailers this year and we anticipate much the same over the next 12-18 months. The reasons for this are that we anticipate seeing further growth in online retail.
- Currently the online element of total retail sales stands at c.12%, but is forecast to reach 20% by 2020 and retailers response to this will result in further occupational demand.
- In terms of investment volumes, we may have hit a peak but the UK logistics investment market still offers the kind of returns that are unavailable in the USA and Asia.
- Average initial yields in the prime logistics hot spots such as Houston, Texas are currently 4.6%, with prime up to 100-150 bps lower. With a similar story around the main metropolitan areas such as Los Angeles and New York.
- For this reason we expect to see North American and Asian overseas investment target the sector over 2015 given the relatively high yields on offer in the UK, with historic lows of 4.75% still relatively eye-catching for a North American or Asian investor.

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