2 million sq ft Integra 61, Durham

INSIGHT

Big box bulletin

H1 2021 review of distribution activity

AVISON YOUNG

ANDREW JACKSON

Principal & Managing Director, Industrial

ROBERT RAE

Principal & Managing Director, Industrial

Occupier market in brief

RECORD BIG BOX TAKE-UP IN H1

Occupational activity for big box warehousing has reached record levels for the first half of the year, continuing the e-commerce fuelled momentum gathered during the second half of 2020.

Take-up of large grade A warehouses (> 100,000 sq ft) amounted to 25.8 million sq ft during H1, 73% up on the five-year, six-monthly average and a staggering 46.1 million sq ft of take-up over the past 12 months. During this time, there have been 162 transactions, which compares to a five-year annual average of 100.

Online retailing continues to drive demand

Online retail sales continue at high levels (26% of all sales in June, having come down from lockdown highs of 36%), and the majority of activity has been driven by ecommerce, whether from retailers directly or third-party logistics providers. The non-food retail sector accounted for 44% of H1 demand, with Amazon leasing 13 units totalling 5.4 million sq ft, as well as taking a further 500,000 sq ft of contracts with 3PLs. The internet retailer secured the largest letting of the half year, 2 million sq ft at Wynyard Park in the Tees Valley. There were further large deals to ecommerce companies, Buyitdirect.com, Boohoo and Made.com, as well as high street retailers Primark and Smyths Toys.

Activity from third party logistics companies has also been strong, accounting for a third of the space taken and much of it also driven by ecommerce. Several operators, such as CEVA, DHL and efulfillment provider Supersmart Services have taken more than 600,000 sq ft in multiple deals and UPS has agreed two units for Amazon contracts. The largest letting in this sector was to cold storage specialist NewCold, who took 631,000 sq ft at Curver Way in Corby.

JLR deals boost manufacturing activity

There has been a welcome return to activity from the manufacturing sector, which amounted to over 4.4 million sq ft for only the third time in five years. The bulk of this came from Jaguar Land Rover's long-awaited 2.9 million sq ft deal at Mercia Park, Ashby-de-la-Zouch; which included two units of a million sq ft each. There was a further 1.7 million sq ft of manufacturing take-up in ten deals.

Design and build activity continues to account for around half of take-up, a similar level to the last five years. The largest six deals of the half year (>700,000 sq ft) were all design and build, with the letting of 528,000 sq ft Rockingham 528 in Corby the largest second-hand unit and 523,000 sq ft Plot 1 at East Midlands Distribution Centre the largest speculative transaction. With the diminishing supply of secondhand space over the past 12 months, the proportion of take-up of speculative units has increased to about a third from 20% for the previous five years.

East Midlands dominance

The standout dominance of the East Midlands during the past few years continued in H1, with the region seeing a record 9.3 million sq ft transact. Yorkshire and the North East, the West Midlands and the North West all sustained strong activity from 2020. Only London and the South East and South West saw take-up below average but this is off the back of a strong showing last year.

A few months' supply

The exceptional demand has reduced supply of big box units to 22 million sq ft. This compares to 25 million sq ft at the end of 2020 and 31 million sq ft at the end of 2019. Furthermore, the make-up of this supply has changed, as both standing secondhand and speculative space have fallen by 43% since the end of last year. Conversely, speculative space under construction has increased to 10.4 million sq ft, 48% of the supply figure – which has doubled since the end of last year.

With a considerable amount of space under offer and there being no let-up in demand, supply levels are expected to fall further during the second half of the year. This creates a greater reliance on space under construction to satisfy requirements, whether speculative or D&B. Across the regions, supply is particularly tight in the Midlands and Yorkshire, where there is only a few months' supply based on recent demand

Labour and materials shortage

The supply shortage will be exacerbated by the delays to construction. With both speculative and design and build construction at such high levels, there is a strain on both building materials and the availability of contractors' workforce. This has coincided with high building cost inflation, delaying build times by three to six months, and increasing the wait for a design and build unit from 12 months to 15-18 months.

Rental and land values accelerate

A combination of this strong demand and tight supply have had a significant impact on rents. Over the past 12 months prime rents have increased from £6.75 psf to £7.50 psf in the Midlands and from £20 psf to £23 psf in Park Royal. According to the MSCI monthly index rental growth for distribution property increased by 2.9% over the six months to June and 3.9% over the last 12 months.

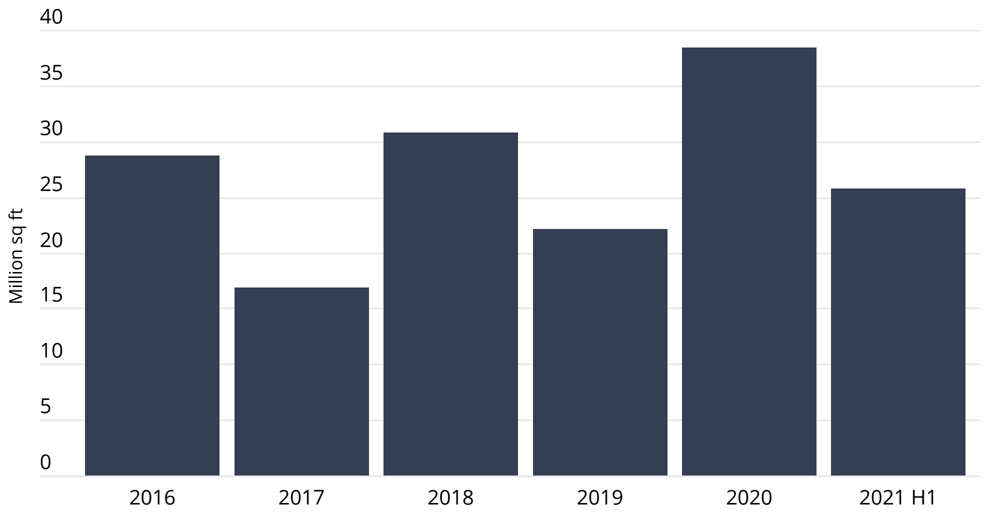
Strong rental growth coupled with diminishing land availability and yield compression has resulted in a step-change in land values. Over the past 12 months values have increased from £1.2 million to £1.5 million per acre in the Midlands and from £7 million to £9.5 million per acre in Park Royal, London.

Occupier data

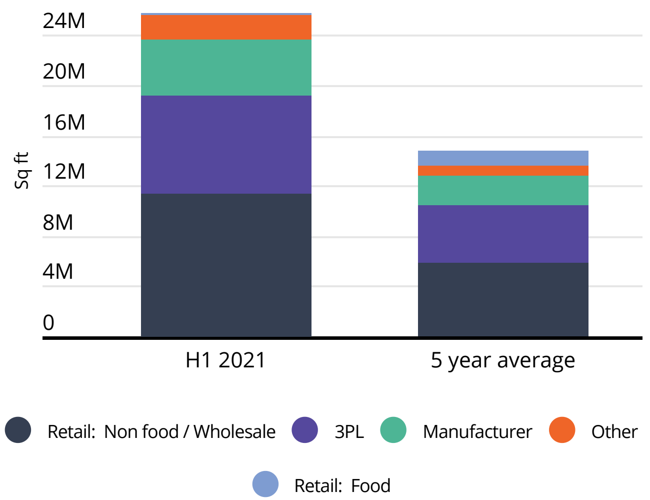
KEY DEALS – H1 2021

SCHEME & ADDRESS	SIZE (SQ FT)	TENANT
Wynyard Avenue, Wynyard Park, Tees Valley	2,013,238	Amazon
Unit 2, Mercia Park, Ashby de la Zouch	1,030,000	JLR
Unit 4, Mercia Park, Ashby de la Zouch	1,030,000	JLR
H Park, Heywood Distribution Centre, Heywood	901,181	L'Oreal
K800, Knowsley Business Park, Knowsley	835,678	Amazon
Panattoni Park, Wexham Road, Slough	750,000	Yonder Data Centres
Panattoni Park, Borehamwood	700,000	N/A
Curver Way, Corby	631,497	NewCold

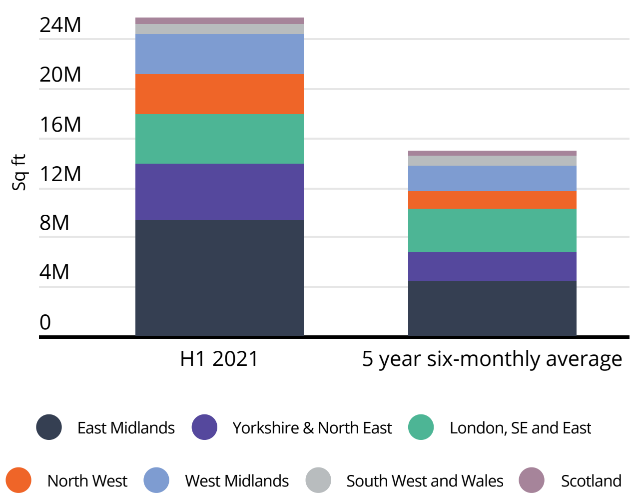
UK GRADE A BIG BOX TAKE-UP (OVER 100,000 SQ FT)



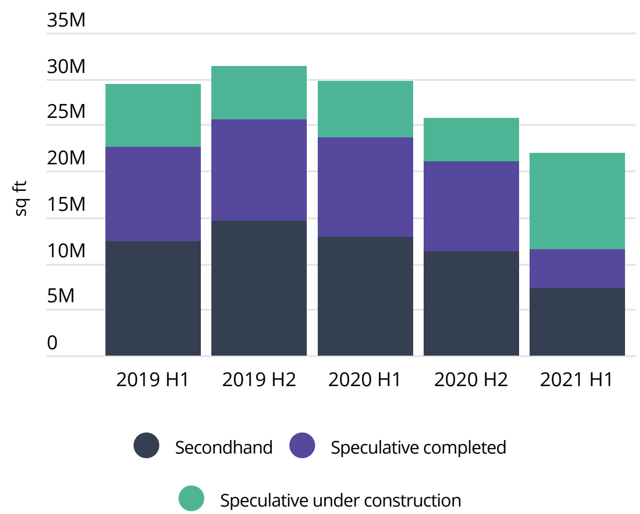
TAKE-UP BY KEY SECTORS



TAKE-UP BY REGION



AVAILABILITY BY BUILDING TYPE



TOM BRIDGMAN
Principal, Industrial

> **"The demand for distribution assets will remain strong, largely driven by strong investor appetite for long income, the structural changes in the retail sector and the weight of global capital.**

Investment market in brief

OVERSEAS BUYERS CONTINUE TO DRIVE RECORD LEVELS OF INDUSTRIAL INVESTMENT

The exceptional level of investment activity for distribution warehouses across the UK seen in the second half of last year has continued into 2021. Total volumes amounted to £3.9 billion to the end of June, 80% up on the five-year half-yearly average of £2.2 billion. According to Property Data, all industrial property has made up 32% of commercial property investment volumes during 2021, a record for the market. This compares to 22% in 2020 and 14% in the previous two years.

Much of this increase in activity is due to the amount of interest from overseas investors, which has been on an upward trajectory over the past few years. Overseas investment has made up 59% of activity this year, similar to last year but compares to 33% for the previous five years.

American investor Blackstone Real Estate has dominated the market for the second year in succession. It has acquired two large portfolios, Albion portfolio (£283 million) and Vantage portfolio (£187 million) as well as the Bedfont Logistics Park for £119 million. Canadian investor BentallGreenOak agreed the largest deal of the half year, £303 million for a portfolio of seven logistics assets on core logistics parks including Magna Park, Lutterworth, D.I.R.F.T, Hams Hall and Warth Park. Investment from North America made up 90% of all overseas investment.

Amongst the single unit investments, there were a handful of Amazon units, such as the fulfilment centre at Bardon, Panattoni Park Northampton, and Hinckley 532. The largest single units to other tenants and all over £100 million included Jaguar Land Rover at Solihull, the Next sale and leaseback at South Elmsall, Yorkshire and MP2 Magna Park, Milton Keynes, occupied by John Lewis.

In terms of domestic investment, UK institutions made up 20% of volumes and UK property companies 17%. Activity from UK institutions was led by Aberdeen Standard Investments, which included the two deals at Hinckley 532 and South Elmsall. Savills IM, NFU Mutual Insurance and Legal and General were also involved in the largest deals, and Tritax Big Box Reit agreed the largest deal for a UK property company.

The breakdown of investment volumes by location shows the strongest activity was in the East Midlands (20%) and London, the South East and East (20%), followed by the West Midlands (14%), with portfolio deals making up a 29% of activity.

The demand for distribution assets will remain strong, largely driven by strong investor appetite for long income, the structural changes in the retail sector and the weight of global capital. With the lack of supply in the occupational market we expect further rental growth. Investors will continue to be attracted by what is perceived to be defensive stock. We therefore expect further yield compression, which is already at record low levels. Prime yields are at a record low of 3.75%. According to the MSCI monthly index the average equivalent yield for distribution property at the end of June was 5.03%, which compares to 5.53% at the end of 2020 and 5.82% a year earlier.

TOTAL FOR H1 2021

£3.9 billion

△ 80%

Up on the five-year six-monthly average

VOLUMES BY CITY

London, South East & East	East Midlands	West Midlands
£767m	£762m	£538m

VOLUMES BY INVESTOR TYPE

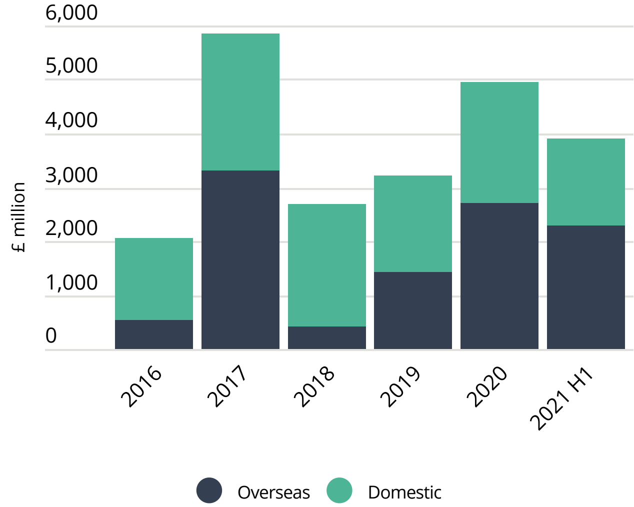
Overseas investor	UK institution	UK property company
59%	20%	17%

Investment data

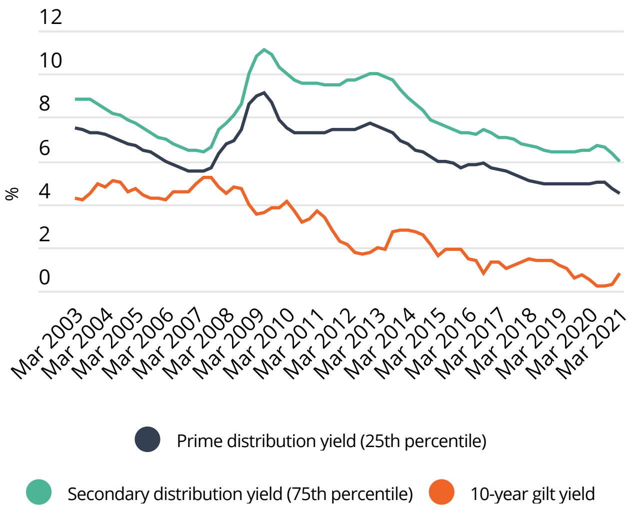
KEY BIG BOX DEALS – H1 2021

DATE	PROPERTY	TOWN	PURCHASER	VENDOR	PRICE £M	YIELD (%)
Feb-21	Logistics Portfolio	Portfolio	BentallGreenOak	Morgan Stanley RE, Thor Equities LLC	303	5.50
May-21	Albion Portfolio	Portfolio	Blackstone Real Estate	Westbrook Partners	283	5.95
Mar-21	Vantage Portfolio	Portfolio	Blackstone Real Estate	InfraRed Capital Partners	187	N/A
Jun-21	Amazon Fulfilment Centre	Bardon	Savills IM	Vestas Investment Management	161	N/A
May-21	Panattoni Park (phase 2)	Northampton	GLP UK Management Ltd	Panattoni, Centerbridge Capital	160	N/A
May-21	JLR, Lode Lane	Solihull	W P Carey & Co	ProLogis UK Ltd	141	N/A
Mar-21	Bedfont Logistics Park	Heathrow	Blackstone Real Estate	BlackRock UK Property	119	3.70
Apr-21	Field Lane	South Elmsall	Aberdeen Standard Invest	Next Group Plc	115	4.50

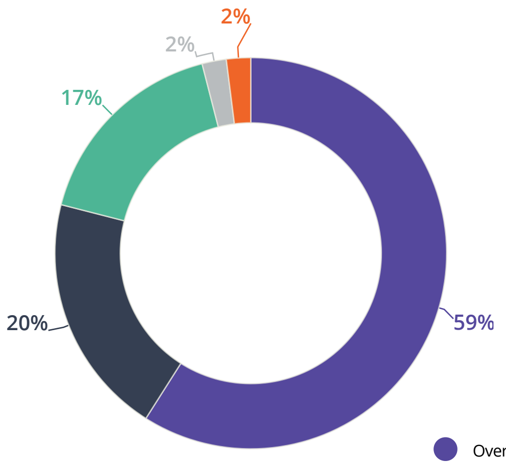
DISTRIBUTION INVESTMENT VOLUMES



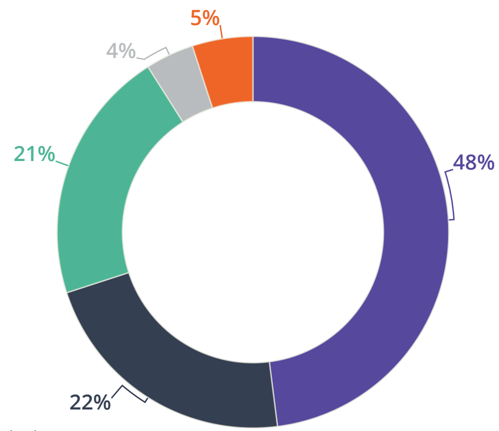
DISTRIBUTION YIELDS VS 10 YEAR GILTS



INVESTMENT VOLUMES BY INVESTOR TYPE – H1 2021



INVESTMENT VOLUMES BY INVESTOR TYPE – FIVE-YEAR AVERAGE



Overseas investor · UK institution · UK property company · Other · Occupier

Key stats

GRADE A TAKE-UP H1 2021

25.8 million sq ft

△ 73% Up on the five-year six-monthly average

KEY OCCUPIERS

Internet retailer
5.4 million sq ft

L'ORÉAL
901,181 sq ft

JAGUAR LAND ROVER
2.9 million sq ft

yendr
750,000 sq ft

TAKE-UP BY BUILDING TYPE

47%
Design & Build

27%
Existing buildings

25%
Speculative

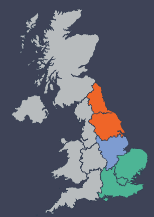
TAKE-UP BY SECTOR

44%
Retail - Non food

30%
Third party logistics

17%
Manufacturer

REGIONAL TAKE-UP



36% East Midlands

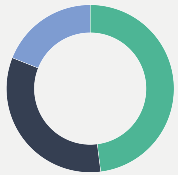
18% Yorkshire & North East

15% London, South East & East

SUPPLY

22 million sq ft

(9 months' supply based on past demand)



48% Under construction

33% Secondhand

19% Completed speculative build

DISTRIBUTION AVERAGE RENTAL GROWTH (MSCI MONTHLY INDEX)

3.9%
12 months to June 2021

DISTRIBUTION INVESTMENT

H1 2021
£3.9 billion

△ 80%
Up on the five-year six-monthly average

DISTRIBUTION YIELD

5.03%
(MSCI monthly index – June 2021)

5.53%
(December 2020)

KEY PURCHASERS

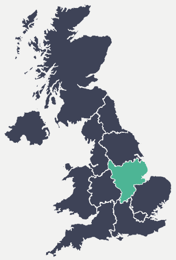
Blackstone

Aberdeen Standard Investments

BentallGreenOak

Regional data

East Midlands



TAKE UP

H1 2021
9,371,981 sq ft

Five-year six-monthly average
4,459,082 sq ft

SUPPLY

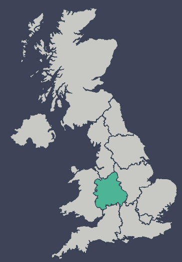
16 units, average 275,152 sq ft
4,402,435 sq ft

Under construction
46%

HEADLINE RENT
(100,000 sq ft unit)
Northampton
7.50 £psf
12 month change

VALUE PER ACRE
(10 acres)
Northampton
£1.5m
12 month change

West Midlands



TAKE UP

H1 2021
3,263,545 sq ft

Five-year six-monthly average
2,197,697 sq ft

SUPPLY

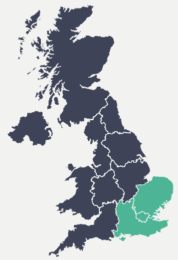
15 units, average 191,331 sq ft
2,869,961 sq ft

Under construction
61%

HEADLINE RENT
(100,000 sq ft unit)
Coventry
7.50 £psf
12 month change

VALUE PER ACRE
(10 acres)
Coventry
£1.5m
12 month change

London, South East & East



TAKE UP

H1 2021
3,991,436 sq ft

Five-year six-monthly average
3,538,682 sq ft

SUPPLY

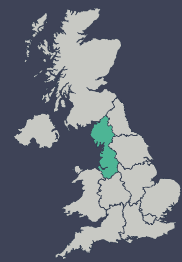
44 units, average 190,769 sq ft
8,393,841 sq ft

Under construction
56%

HEADLINE RENT
(100,000 sq ft unit)
Park Royal
23.00 £psf
12 month change

VALUE PER ACRE
(10 acres)
Park Royal
£9.5m
12 month change

North West



TAKE UP

H1 2021
3,318,483 sq ft

Five-year six-monthly average
1,386,368 sq ft

SUPPLY

13 units, average 238,185 sq ft
3,096,404 sq ft

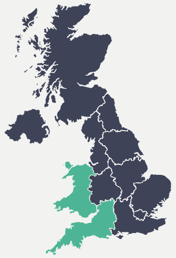
Under construction
50%

HEADLINE RENT
(100,000 sq ft unit)
Manchester
7.25 £psf
12 month change

VALUE PER ACRE
(10 acres)
Manchester
£1.2m
12 month change

Regional data

South West & Wales



TAKE UP

H1 2021
742,956 sq ft

Five-year six-monthly average
773,319 sq ft

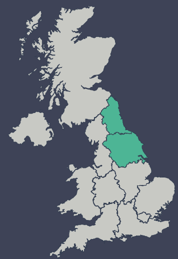
SUPPLY

10 units, average 198,380 sq ft
1,983,803 sq ft

Under construction
24%

HEADLINE RENT (100,000 sq ft unit)	VALUE PER ACRE (10 acres)
Bristol	Bristol
7.25 £psf	£490,000
12 month change	12 month change

Yorkshire & North East



TAKE UP

H1 2021
4,541,717 sq ft

Five-year six-monthly average
2,252,757 sq ft

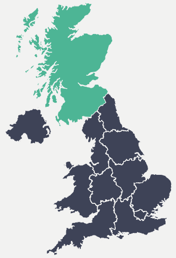
SUPPLY

4 units, average 192,623 sq ft
770,490 sq ft

Under construction
0%

HEADLINE RENT (100,000 sq ft unit)	VALUE PER ACRE (10 acres)
Leeds	Leeds
6.50 £psf	£1.0m
12 month change	12 month change

Scotland



TAKE UP

H1 2021
550,000 sq ft

Five-year six-monthly average
288,100 sq ft

SUPPLY

3 units, average 148,333 sq ft
445,000 sq ft

Under construction
0%

HEADLINE RENT (100,000 sq ft unit)	VALUE PER ACRE (10 acres)
Glasgow	Glasgow
7.00 £psf	£250,000
12 month change	12 month change

"The standout dominance of the East Midlands during the past few years continued in H1, with the region seeing a record 9.3 million sq ft transact. Yorkshire and the North East, the West Midlands and the North West all sustained strong activity from 2020.

Should you wish to discuss any details within this update please get in touch

Andrew Jackson
Principal and Managing Director, Industrial
+44 (0)20 7494 9455
andrew.jackson@avisonyoung.com

Robert Rae
Principal and Managing Director, Industrial
+44 (0)24 7663 6888
robert.rae@avisonyoung.com

Tom Bridgman
Principal, Industrial
+44 (0)20 7911 2615
tom.bridgman@avisonyoung.com

Giles Tebbitts
Associate Director, Research
+44 (0)20 7911 2670
giles.tebbitts@avisonyoung.com