The first phase of the 3 million sq ft industrial development, Peddimore, is set to commence in late 2020. Avison Young are letting agents.
D&B dominates but increased demand for speculative space

While demand for major distribution units fell from the record levels seen in 2018, there has been an encouraging increase in demand for new speculative units, in a market where design and build dominates. The second half of the year also brought a recovery in activity for sectors and some regions that underperformed during H1.

Take-up of large grade A warehouses (> 100,000 sq ft) amounted to 11.8 million sq ft during the second half of 2019, which lifted the total figure for the year to 22.1 million sq ft, 5% below the five year average. In view of the political uncertainty throughout the year this was an encouraging level of activity.

The East Midlands has been the dominant region for the past two years and accounted for 7.4 million sq ft of activity in 2019. This does not include the record 2.9 million sq ft deal to Jaguar Land Rover, which is subject to funding. London, the South East and East had the next busiest year with 6 million sq ft. Both these regions performed well above their respective five year averages and together accounted for almost two thirds of total activity. In the next tier of activity there was around 3 million sq ft of take-up in the West Midlands, which recovered from a slow start to the year and a similar level in Yorkshire & North East.

Now there is a clearer political outlook, we are seeing greater business confidence, a release in pent-up demand and more transactional activity. We expect this to continue, certainly for the first half of 2020.
There was activity across a broad range of sectors during 2019, which is similar to the average. Activity was however dominated by non-food retail (35%), third party logistics (26%) and the manufacturing sector (23%). The manufacturing sector accounted for the largest deal during the second half of the year, almost a million sq ft to JLR in Solihull, which is a welcome return for automotive activity. The third party logistics sector was led by two c.500,000 sq ft deals in the East Midlands to DHL in Worksop and to Europa Worldwide Group Ltd in Corby.

Continuing the trend of the past few years, design and build take-up has accounted for more than 50% of activity and nine of the largest ten transactions in 2019, the largest of which was 1.75 million sq ft pre-let at Summit Park, Mansfield to a retailer. However it is encouraging that speculative take-up accounted for more than 5 million sq ft, its highest level since 2016 and reflective of the higher level of recent speculative completions. Conversely, take-up of secondhand space amounted to 4.6 million sq ft, which is low compared to recent years.

Supply levels have increased to 31.3 million sq ft, up from 29.5 million sq ft in June, attributable mainly to an increase in existing stock. While the overall level of speculative supply (completed and under construction) has remained steady, the amount under construction has fallen 20% to 5.6 million sq ft, reflecting a fall in the number of starts throughout 2019.

Despite an increase in supply, overall levels are still constrained, equating to 1.3 years’ supply based on average annual demand for the past five years. While there is some regional variation, all regions have between one to two years’ supply.

Now there is a clearer political outlook, we are seeing greater business confidence, a release in pent-up demand and more transactional activity. We expect this to continue, certainly for the first half of 2020. A number of companies will bring forward their property plans which we expect to be reflected in healthy take-up figures.
### SUPPLY BY REGION AND BUILDING TYPE (END OF 2019)

<table>
<thead>
<tr>
<th>Region</th>
<th>Million sq ft</th>
</tr>
</thead>
<tbody>
<tr>
<td>East Midlands</td>
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</tr>
<tr>
<td>West Midlands</td>
<td>5.2</td>
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<tr>
<td>London, SE &amp; East</td>
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<tr>
<td>Yorkshire &amp; North East</td>
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<td>South West &amp; Wales</td>
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<tr>
<td>Scotland</td>
<td>2.8</td>
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</table>

**Legend:**
- Existing build
- Spec completed
- Speculative under construction

### 2019 KEY OCCUPIER DEALS

<table>
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<tr>
<th>Scheme</th>
<th>Sq ft</th>
<th>Occupier</th>
<th>Deal</th>
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<tr>
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<td>D&amp;B</td>
</tr>
<tr>
<td>Damson Parkway, Solihull</td>
<td>988,126</td>
<td>JLR</td>
<td>D&amp;B</td>
</tr>
<tr>
<td>iPort, Doncaster</td>
<td>731,000</td>
<td>Confidential</td>
<td>D&amp;B</td>
</tr>
<tr>
<td>Land at Didcot</td>
<td>700,000</td>
<td>Cloud HQ</td>
<td>D&amp;B</td>
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<tr>
<td>Mountpark, Bardon</td>
<td>579,000</td>
<td>VF Corporation</td>
<td>D&amp;B</td>
</tr>
<tr>
<td>Altitude, Magna Park</td>
<td>574,000</td>
<td>Confidential</td>
<td>Spec Build</td>
</tr>
<tr>
<td>Manton Wood, Worksop</td>
<td>538,280</td>
<td>DHL</td>
<td>D&amp;B</td>
</tr>
<tr>
<td>Midlands Logistics Park, Corby</td>
<td>525,000</td>
<td>Europa Worldwide Group Ltd</td>
<td>D&amp;B</td>
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<tr>
<td>Belvedere Wharf</td>
<td>500,000</td>
<td>Lidl</td>
<td>D&amp;B</td>
</tr>
<tr>
<td>Apex Park Phase IV, Daventry</td>
<td>433,387</td>
<td>Cummins Diesel</td>
<td>D&amp;B</td>
</tr>
</tbody>
</table>
**Grade A Take-Up 2019**

- **22.1 million sq ft**
- **5% down on 5 year average**

**Key Deals**

- **INTERNET RETAILER**
  - Summit Park, Mansfield
  - 1.75 million sq ft
- **INTERNET RETAILER**
  - IPORT, Doncaster
  - 731,000 sq ft
- **JAGUAR**
  - Damson Parkway, Solihull
  - 988,126 sq ft
- **VA CORPORATION**
  - Mountpark, Bardon
  - 579,000 sq ft

**Take-Up by Building Type**

- **52%** Design & Build
- **25%** Speculative
- **23%** Existing Buildings

**Take-Up by Key Sector**

- **35%** Retail - Non-Food
- **26%** Third Party Logistics
- **23%** Manufacturing
- **8%** Retail - Food

**Two Regions Dominate Take-Up**

- **East Midlands** 34%
- **London, South East and East** 28%

**Supply**

- **31.3 million sq ft**
- (16 months’ supply based on past demand)

- **47%** Secondhand
- **18%** Under Construction
- **35%** Completed Speculative Build

**Distribution Rental Growth**

- **(MSCI Monthly Index)**
  - 3.1% 2019
  - 2.6% 2020
  - 2.4% 2021

**Distribution Investment**

- **£3.22 billion** 2019
- **1%** down on 5 year average

**Distribution Yield**

- **5.64%** (MSCI Monthly Index - December)
- **5.66%** in July

**Key Purchasers**

- Morgan Stanley
- Gazeley
- M&G
- PROLOGIS
East Midlands

The East Midlands has dominated big box demand for the past two years. Take-up for H2 2019 totalled 3.8 million sq ft, maintaining the high level of activity observed in the first half of the year. This brings the total annual take-up figure for the East Midlands to 7.3 million sq ft, which although down on the record levels reported in 2018, is 15% above the five-year average.

However these figures do not include the record 2.9 million sq ft deal to Jaguar Land Rover at Appleby Magna, as it is subject to funding. In a statement of faith for the automotive sector, the deal will consolidate 10 depots into four new buildings for the global distribution of automotive parts. The buildings are expected to complete throughout 2021.

The retail sector led activity in 2019 with the largest deal, a 1.75 million sq ft pre-let at Summit Park, Mansfield. There were also key deals in excess of 500,000 sq ft to third party logistics companies DHL at Worksop and Freight forwarder Europa Worldwide at Midlands Logistics Park in Corby, which is due to complete in June. These contributed to the 1.5 million sq ft transacted by the third party logistics sector in H2.

Supply of grade A units in the East Midlands stands at 7.4 million sq ft, an increase of 10% on the first half of 2019 and equivalent to 14 months’ supply based on the level of demand for the past five years. The increase in availability is a combination of increased speculative supply (4.4 million sq ft in total) and a number of occupiers continuing to take large design and build units.

In terms of longer term development, the Northampton Gateway rail depot was granted planning permission in October and Gazeley have recently announced that they will be undertaking work to almost double the size of Magna Park.

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The West Midlands had a very active second half of 2019, with take-up amounting to 2.7 million sq ft across eight deals. This was far more than the 459,800 sq ft of activity in the first half of the year and is the highest half-year result since H1 2017. Interestingly, all eight deals were either design & builds or speculative builds, with no deals agreed on second-hand space.

Key to such a successful half year was Jaguar Land Rover agreeing 988,000 sq ft at Damson Parkway in Solihull. This design and build deal was the largest in the region in a period that saw a number of deals in excess of 200,000 sq ft. These included third party logistics firms Super Smart Services taking 375,000 sq ft in Cannock, Staffordshire and Amazon agreeing 366,000 sq ft at Redditch Gateway in Worcestershire.

The level of availability remains similar to the first half of the year with 34 buildings currently, totalling 6.4 million sq ft. Of this, 41% are existing builds including the largest available space, the 666,044 sq ft cross docked warehouse ‘Goliath’ at Cross Point Business Park, Coventry.

The remaining 3.7 million sq ft is speculative space of which 40% is under construction. The largest project being built is the 431,700 sq ft Fradley 432 in Lichfield, Staffordshire, which will complete in March 2020. Staffordshire has much to offer those requiring larger spaces, with four of the six largest available spaces, all above 270,000 sq ft being in the county. This is in contrast to the broader regional market where the vast majority of available buildings (25) are in the 100,000 to 200,000 sq ft category.

In the development pipeline, the first phase of the significant 3 million sq ft industrial development, Peddimore, is set to commence in late 2020, bringing 91 acres of commercial space to the market in 2021.

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The eleven deals across London, the South East and East in H2 2019 totalled 2.7 million sq ft. While this was lower than during the first half of the year, it pushed the total for 2019 to 6.6 million sq ft, up 22% on the 5-year annual average.

The largest deal over the period was the information technology company CloudHQ agreeing a land purchase for a 700,000 sq ft design and build unit in Didcot. Interestingly, out of the largest 13 big box deals in this region during the last four years, this was the only deal not for the retail sector. The next largest deal was to third-party logistics firm Westcoast Holdings, who took 341,602 sq ft at Centric 341, Andover Business Park.

The other nine deals over the second half of 2019 were let to occupiers across a variety of sectors, consisting of secondary, speculative and build to suit deals. Of particular interest is a film studio agreeing 300,000 sq ft at Access 300, Park Royal in London.

Total supply currently stands at 6.1 million sq ft across 32 buildings/projects. Almost one third of this, 1.9 million sq ft, is in ten existing buildings with the largest being 617,393 sq ft at Techtonic 620 in Milton Keynes. The rest of the total supply comprises 4.2 million sq ft of speculative space, 38% of which is under construction.

The largest project underway is 312,000 sq ft being built at Magnitude 312, Magna Park in Milton Keynes. Of interest, four of the five biggest projects in the region are by the developer Gazeley, with three of these being built in Bedford and all due to be completed by October 2020, quoting a rent of £7.95 psf.

In addition to the current pipeline, there continues to be very strong demand for land in London and prime sites in the South East, especially from developers and investors seeking an increase in weighting in the region. For example Panattoni has recently bought a 100-acre site in Aylesford for £75 million (£750,000 per acre) to develop 1.6m sq ft of warehouse space.

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North West

The North West reported 909,000 sq ft of take-up for the second half of 2019, which is a marked improvement from the low take-up observed in H1. Among the six transactions which occurred in H2, the 238,000 sq ft taken by Boughey Logistics at 240 Jack Mills Way, Crewe, was the largest and represented the strong demand from the third party logistics sector, followed by Honeywell which acquired 211,000 sq ft at Ellesmere Port.

Due to the subdued H1 activity, total take-up for the North West in 2019 was just 1.2 million from eight deals. This is half of the five year average, with the subdued performance being attributed to the political uncertainty that has characterised the year.

Many businesses held off committing to large spaces in 2019, but with the strong finish to the year, we expect this release in pent up demand to prolong into 2020 as the election and Brexit progress have provided some clarity for the future. It remains to be seen how much this is tempered by continuing uncertainty as to what a Brexit deal will look like. Significant requirements additional to those already being sought are likely to come to the market early this year, bringing expectations for further rental growth, with rents currently headlining at £6.75 psf.

The substantial speculative completions which came to the market in 2018 lifted availability to 5.7 million sq ft in June last year. However, the limited recent development pipeline meant this figure fell 24% by the end of 2019. This is forecast to fuel greater growth in land values in the North West over the next year particularly as the availability of new stock declines.

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South West and Wales

It has been a quiet year for big shed activity in the South West and Wales, with take-up totalling 422,000 sq ft. In the final quarter of the year Ocado/M & S took 150,000 sq ft at Access 18 in Avonmouth, which was speculatively built by St Modwen. This will be Ocado’s first ‘mini’ robotic warehouse which will deliver more than 30,000 orders per week once it goes live in late 2020/ early 2021. Another key big shed deal was in South Wales where the NHS Trust purchased the 271,000 sq ft IP5 at Imperial Park in Newport earlier in the year.

We expect the level of activity to pick up significantly in 2020 as there are a number of potential large enquires from ecommerce and food retailer sectors.

The availability of big sheds currently stands at 1.9 million sq ft. The majority of this is within a handful of secondhand units between 250,000 sq ft and 390,000 sq ft, detailed in the table opposite. In addition there are several new speculative logistics schemes such as the recently completed 137,300 sq ft ‘The Junction’ at Central Park in Bristol and 106,000 sq ft at Chippenham Gateway (J 17, M4), which is being built by St Modwen.

The region also has a number of well-progressed serviced strategic sites such as Mountpark’s 75 acre Bristol XL plot and Panattoni’s 60 acre site in east Swindon. In one of the largest commercial land deals in the UK this year, the former Scottish power site in Avonmouth, Severnside has been sold by Avison Young to Walters Land for logistics development and direct leasing. Severnside, Bristol is now a major logistics hub with occupiers such as The Range, Lidl and Amazon, taking advantage of the new motorway junction on the M49.

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Take-up of 952,000 sq ft in the second half of 2019 took the annual total to 2.9 million sq ft in Yorkshire and the North East, which is in line with the five year average.

There were five key deals during the second half of the year, involving the full range of design and build, new speculative and secondhand units, with the retail and manufacturing sectors continuing to dominate activity.

The largest of these key deals was at Glasshoughton, where Tungsten Developments secured a letting of the 263,000 sq ft speculative Super G to Puma, which will enable them to consolidate from 4 units. This was followed by chemicals company Croda who committed to a design and build of 232,000 sq ft at Capital Park, Goole.

There is currently some imbalance in the Yorkshire market. In West Yorkshire on the M62 and upper M1 corridors, supply is very thin but demand is strong, particularly in the 100-200,000 sq ft range; whereas there are several units available in South Yorkshire, along the M18 and A1 corridors, where demand is not as robust. In the larger size bands solid requirements are relatively thin across the whole region with 3PLs and most retailers, Amazon aside, not in expansive mood.

Three speculative schemes totalling over 1.2 million sq ft have recently commenced construction and are all expecting to complete at the end of 2020. The largest is 515,000 sq ft Wakefield 515 by Panattoni / AEW / Caddick Developments. This has lifted current availability (including space under construction) to 4.7 million sq ft, which is 18 months’ supply based on demand for the past five years.

The first half of the year was busiest in the North East with activity in H2 fairly muted. The largest transaction was Sonoco taking 105,000 sq ft in South Tyneside. There continues to be a lack of availability of grade A stock in the 100,000 sq ft plus size range and developers with sites capable of delivering units in this size range will be well placed for D&B opportunities. Large automotive related requirements have fallen away, but this is likely to be temporary. Other sectors such as wind energy are growing in the region.

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Scotland

The Scottish industrial market continues to perform well with strong occupier demand and low levels of available stock continuing to push rental levels.

In the big box market, design and build deals remain a continued focus for retailers and large logistics companies trying to meet the ever increasing demand for quick delivery services across the central belt in Scotland. Parcel delivery company Hermes has recently made moves to expand its Eurocentral distribution hub, having taken an additional 94,500 sq ft at Colossus 2, which is set to be fully operational in summer 2020. The former 292,000 sq ft Lidl distribution centre in Deans Road, Livingston was also sold in Q4 to packaging company Saica Pack.

On the investment side, in November owner-occupier and craft brewery operator Brewdog concluded a sale and leaseback of its 129,000 sq ft distribution centre in Eurocentral, which it acquired in 2018, to CBRE Global Investors.

Prime development land remains in high demand, with pre-lets of new build stock relatively straightforward to obtain. With older industrial stock there is a good opportunity to refurbish and let, as secondary locations have seen drastically reducing voids.

The majority of demand and activity in Scotland remains below the 100,000 sq ft mark, with multi-let schemes continuing to let well. In East Scotland, there are a number of new multi-let schemes which have recently completed, including Livingston Trade Park, and Sevenhills Sighthill, with most existing multi-let developments reporting 100% occupancy.

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H2 bounce for investment volumes

The total volume of investment for distribution warehouses across the UK amounted to £2 billion during the second half of 2019, which is a significant improvement on the first half of the year. This brings the total for the year to £3.22 billion, just 1% down on the five-year average.

The figures were lifted by the Q4 sale of the Segro portfolio of seven big box assets for £241 million. This follows two £100 million plus deals earlier in the year, RD Park Hoddesdon to M&G Real Estate and Brook Park, Mansfield to a Malaysian investor.

Key to activity were investments between £30 and £90 million, which included Gazeley’s purchase of three buildings at Panattoni Park in Northampton for £87 million, but were mainly single unit investments such as Dixon Carphone’s unit in Newark, bought for £81 million and Alpha Real Capital’s purchase of DHL’s building in Worksop for £67 million.

As expected London, the South East and East accounted for the largest investment volumes during the year at £988 million followed by the East Midlands (£759 million) and Yorkshire & North East (£439 million). Many of the larger transactions were to overseas investors, who accounted for 45% of all volumes, above the five year average of 39%. Conversely, the domestic purchasers were quieter, being net sellers in 2019.

Value add remains the favoured investment style, although the proportion has decreased compared to the previous year. Secure income buyers continue to dominate demand, along with properties offering long leases, preferably with fixed or indexed reviews. We expect strong investor demand for prime, well let assets to continue, as the greatest impact on pricing has been on the riskier product.

With increased political certainty we expect to see a bounce back in the first half of 2020 and increased activity from investors. The pound is likely to remain relatively suppressed; therefore we expect interest to continue from overseas buyers. There is also a large weight of money that will drive institutional investors to return to the market.

According to the MSCI monthly index the average equivalent yield for distribution property softened during the first half of 2019 from a low of 5.48% at the end of 2018. However yields have remained broadly stable over the second half of the year, ending 2019 at 5.64% compared to 5.66% in July.
### Investment data

#### KEY BIG BOX DEALS - 2019

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<th>Date</th>
<th>Street</th>
<th>Town</th>
<th>Purchaser</th>
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<td>Morgan Stanley RE / Thor Equities</td>
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<td>Gazeley</td>
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<td>ProLogis UK Ltd</td>
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<td>Worksop</td>
<td>Alpha Real Capital LLP</td>
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#### DISTRIBUTION INVESTMENT VOLUMES

- Overseas
- Domestic

#### DISTRIBUTION YIELDS VS 10 YEAR GILTS

- Prime distribution yield (25th percentile)
- Secondary distribution yield (75th percentile)
- 10 year gilt yield
Outlook

With a future trading deal to be negotiated with the EU, uncertainty will not fall away. Our forecast of 1.1% GDP growth in 2020 is unlikely to change materially, but we expect a short term boost to economic activity at least in the first half of the year. An improvement in sentiment and transactional activity is therefore to be expected. But with the focus shifting to debate over the U.K’s future trading arrangements with the EU, considerable uncertainty still remains.

Deals in the pipeline in the distribution sector indicate a robust level of activity for 2020. We are aware of a number of large requirements to retailers, particularly discounters such as B&M, Aldi and Lidl, as well as third party logistics operators who are working in conjunction with internet retailing clients for e-fulfilment.

The strong growth in e-commerce and requirement for last mile delivery has generally insulated the sector from political and economic headwinds that have affected other sectors. The resilience of the industrial market has led to a rise in speculative completions across the country. With demand levels remaining robust, we expect the increase in supply coming to the market to be absorbed and there remains a strong appetite from developers and funds for speculative development to meet requirements.

Logistics companies continue to address the shortage of employment by shifting their attention to locations offering cheaper and more available labour, emphasised by the largest deals this year taking place in Mansfield, Barton and Doncaster. This trend is set to continue, as there is greater access to labour as well as greater pre-let property opportunities.

According to MSCI, rental growth over the 12 months to December was 3.1% for distribution property. Rents are expected to continue on an upward trajectory, albeit slower than recent years at around 2.5% pa for the next two years.
Headline Rents (100,000 sq ft unit)
Land values (per acre – 10 acre plot)
Should you wish to discuss any details within this update please get in touch.

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