Industrial Intelligence

Spring 2017

Kingswood Lakeside, Cannock. GVA are letting agents for Exeter Property Group and Graftongate

An APLEONA company

The Range, Central Park, Bristol. GVA acted for developer Delta Properties

UK Occupier overview

- **Take-up of modern distribution units over 100,000 sq ft** amounted to 28.5 million sq ft during 2016, **25% above the five year average**.
- **Retailers continue to be the most active sector** making up 62% of all take-up (34% e-commerce and 28% non-internet retail), followed by logistics providers (18%) and manufacturers (18%).
- Take-up levels were boosted by some exceptional deals, including over **8 million sq ft to Amazon, 29% of all take-up**. The largest was 2.2 million sq ft over four floors at London Distribution Park, Tilbury. The next most acquisitive occupier was Lidl who took 1.5 million sq ft in four deals across the country.
- The distribution sector is benefiting from retailers' ever increasing desire to improve the efficiency of their supply chains and the confidence in the sector means occupiers are willing to commit to longer leases. Other key deals in the **retail** sector include 1.2 million sq ft to The Range at Central Park, Bristol and 562,000 sq ft to Screwfix in Lichfield.
- In the other sectors, the largest deals were to Yusen taking 379,000 sq ft, in the **logistics** sector, while in the **manufacturing** sector car parts maker Gestamp Tallent took 543,000 sq ft in Wolverhampton and Jaguar Land Rover took 470,000 sq ft in two deals at Ryton, Coventry.
- The **most active development sites** were Central Park in Bristol, iPort in Doncaster and London Gateway in Tilbury, each of which transacted over 2 million sq ft. By far the greatest amount of take-up occurred in the Midlands (38%), followed by the South East and East (19%), with similar levels of take-up in the North West (13%), the South West (11%) and Yorkshire and Humber (11%).
- There was a pause in forward funding of **speculative development** following the EU referendum but recent signs are that it has started to resume. There is currently 3.1 million sq ft of speculative units under construction across the country, 63% in the Midlands, 24% in the South East and 10% in Yorkshire and the Humber. With the lack of supply, speculative schemes are being taken quickly; the average void period on all schemes completed during 2016 is five months.
- **Average deal sizes** varied substantially across the sectors. Reflecting the large deals to Amazon, internet retail deals averaged 454,000 sq ft, while non-internet retail averaged 317,000 sq ft. This compares to manufacturing at 212,000 sq ft and third party logistics at 172,000 sq ft.
- The strong take-up levels over the past year combined with a slowdown in speculative development mean that **current availability** of modern big sheds is at the **lowest level for at least ten years**. This represents just over six months' supply based on past take-up levels.
- The declining supply of prime standing stock has led to an increase in **major land deals** as well as design and build pre-lets, such as Central Park in Bristol where The Range located, as well as Lidl who have also bought 43 acres at Logistics North, Bolton and 38 acres at iPort in Doncaster.
- The lack of available stock is supporting rental growth for **small and mid-size industrial units**. The high cost of development and increase in build costs are impacting on the delivery of new schemes. In addition, the funding market remains challenging with mainstream funds concentrating on core locations.
- Over the year to February **industrial land values** have increased by a much more modest 5%, compared to the strong growth in the previous two years. Of the 13 locations that we monitor (detailed on the map), the average land value has increased from £752,000 per acre last year to £790,000 per acre. Values have increased in the South East locations of Park Royal and Enfield, as well as Manchester, while there was no significant movement in the other locations.
- Strong demand combined with limited supply is supporting **rental growth**. Prime distribution net effective rents have increased by an average of 2.5% during 2016, the same as average distribution rental values (on the IPD index) and we forecast growth of around 1.7% pa this year and next.

Alchem1, Crick, Rugby. GVA are letting agents on behalf of Graftongate and Legal and General.

Major recent deals in the Midlands

Property	Occupier	Sq ft	Date
Mountpark, Bardon, Coalville	Amazon	1,050,000	Feb 16
Prologis Park, Lichfield	Screwfix	562,000	Dec 16
Four Ashes Park, Wolverhampton	Gestamp Tallent	543,000	Aug 16
Prologis Park, Ryton, Coventry	Jaguar Land Rover	470,000 (2 deals)	Aug 16
Prologis Park, Wellingborough West	Yusen Logistics	379,000	Nov 16
Prologis Park, Pineham	J Sainsbury Plc	325,000	Oct 16
Daventry Distribution Centre	Amazon	297,300	Oct 16
Magna Park, Lutterworth	Wayfair Furniture	258,000	Sept 16
Centrum Logistics Park, Burton-on-Trent	Palletforce	253,000	Aug 16

Key supply in the Midlands above 275,000 sq ft

Property	Sq ft	Grade	Comment
Magna Park, Lutterworth	411,613	Modern	Available
Prologis Park, Pineham, Northampton	374,132	Modern	Available
Kingswood Lakeside, Cannock	372,000	Spec	Completion Q2 2017
Imperial Park, Siskin Parkway, Coventry	346,927	Spec	Completion Q2 2017
Mountpark, Bardon	317,587	Spec	Completed Q4 2016
Birch Coppice, Tamworth	282,000	Spec	Available
Optimus Park, Leicester	276,100	Spec	Completed Q2 2016

In Focus:
Midlands

- **Take-up of modern big sheds over 100,000 sq ft amounted to 11.6 million sq ft** across the Midlands during 2016, 29% above the five year average of 8.9 million sq ft.
- **Big shed occupier demand** in the Midlands is increasingly retail focused, particularly the East Midlands, amounting to 54% of all deals, evenly split between retailing and e-commerce. However other sectors took a greater share of take-up than the national trend, with manufacturing accounting for 23% of all deals and third party logistics took 21%.
- **Amazon committed to over 2 million sq ft** in the region, in four deals, with the largest being 1.05 million sq ft at Bardon. Other recent retail deals have been signed by Screwfix (562,000 sq ft) and Sainsbury's (325,000 sq ft). The letting to Gestamp Tallent in Wolverhampton was the largest manufacturing deal in the UK at 543,000 sq ft. Of the logistics companies, deals over 200,000 sq ft included Yusen Logistics, Palletforce and Amethyst.
- **Demand during 2017 is expected to remain strong**. Third party logistics companies such as XPO, Wincanton and Kuehne + Nagel all have active live requirements in excess of 200,000 sq ft. We expect internet retailing to further dominate the market this year. Activity from Amazon is likely to continue albeit with a greater focus on mid-size last-mile requirements. Other mid-range requirements will continue from component suppliers in the automotive sector.
- **The supply of modern big sheds has diminished** year on year since 2010. According to our analysis there is currently 4.4 million sq ft available in 22 units. In addition, there are 10 speculative units under construction totalling almost 2 million sq ft, all due for completion by the end of this year. This includes 372,000 sq ft at Kingswood Lakeside in Cannock, the largest speculative development under construction in the UK.
- Based on average take-up rates, this equates to six months current supply and an additional three months speculative supply under construction. The lack of grade A supply in the Midlands has not affected strong take-up levels, which reflects the large amount of pre-let design and build deals currently being agreed. However, with the slowdown in speculative development immediately following the referendum, there is a concern that the level of current supply will become an issue in the latter half of the year.
- The average size for speculative schemes of just under 200,000 sq ft is indicative of the more cautious approach from developers, compared to the last **speculative development** cycle. There is a cluster of well-located schemes between the M6 and M1, broadly around the golden triangle with Coventry, Rugby, Tamworth, Bardon and Leicester all featuring more than one scheme.
- **Headline rents** in Coventry, Birmingham and Northampton have increased from £6.25 to £6.50 psf over the past year. With six months' rent free on a ten year term often available, this equates to a net effective rent of £6.34 psf.

GVA are letting agents for Miller Developments at Omega, Warrington

Single lets

Location	Area Sq ft	WAULT (Break)	Rent £psf	Tenant /purchaser	Price	NIY	Date
Centrum 100, Burton on Trent	484,716	20	£3.71	Molson Coors/Private investor	£33,650,000	5.01%	Dec-16
Mollison Avenue, Enfield	144,748	12	£8.42	Findel Plc/Royal London Asset Management	£24,270,000	4.47%	Dec-16
Southern Road, Banbury	238,206	9.8	£5.13	The Entertainer/M&G	£21,300,000	5.37%	Dec-16
Prologis Park, Lichfield	562,000	10	£5.50	Screwfix Direct/Tritax Big Box REIT	£52,700,000	5.50%	Dec-16
Brooklands Industrial Park, Weybridge	87,170	6.65	£7.60	John Lewis/Elmbridge Council	£13,800,000	4.75%	Nov-16

Multi-lets

Location	Area Sq ft	WAULT (Break)	Rent £psf	Tenant /purchaser	Price	NIY	Date
Skyline 120, Avenue West, Braintree	180,136	10	£7.02	Various / Aberdeen Asset Management	£19,570,000	6.01%	Dec-16
Elstree Trade Park, Borehamwood	88,555	8	£12.98	Various / CBRE Global Investors	£23,150,000	4.46%	Dec-16
Leeds 27 Industrial Estate, Leeds	331,864	4	£4.35	Various / CCLA	£20,800,000	6.49%	Dec-16
Perth Trading Estate, Slough	131,945	3.1	£7,77	Various / UBS Triton Property Fund	£19,050,000	5.10%	Jan-17
10 Headley Park, Reading	114,646	3.5	£8.21	Various / Orchard Street IM	£16,635,000	5.30%	Feb-17

National investment overview

Investment in distribution warehouses amounted to £3.3 billion during 2016, which compares to £3.5 billion in the previous year, according to Property Data.

UK property companies made up the highest proportion of deals by volume at 35%, over half of which was purchased by Tritax Big Box REIT. **Overseas buyers** accounted for 28%, two thirds of which was during the second half of the year, with Sterling's depreciation making the UK more attractive. **UK institutions** are also seeing purchasing opportunities in the current market and have continued to have a strong interest, accounting for a quarter of all transactions.

A fall in commercial property values was inevitable following the referendum result, but it has certainly not been the sharp correction that could have occurred; the IPD Quarterly Index recorded a drop in distribution **capital values** during Q3 last year but this partially recovered in Q4. The overall change for 2016 was 0.6%.

We are upbeat about the distribution/logistics investment market, where there is a **compelling long-term demand story**, and coupled with long-dated secure income, significant opportunities exist. The demand created by major shifts to retail distribution networks will not abate and, if anything, Brexit will serve to accelerate the rate of change as the pressure on retailers to achieve efficiencies becomes more acute.

The global political turbulence during 2016 has shifted investment **sentiment from opportunistic to safe keeping**. The need for wealth protection has led to an increased demand for assets offering a hedge against instability and consequently there has been a downward pressure on prime yields. Investors have limited options with gilts and interest rates at historic low levels. However, UK investment property offers attributes that match the need for income security and higher returns making it a very viable form of investment media.

The characteristics of the industrial investment market can generally be separated into two classes; distribution and multi-let. **The distribution market** generally offers the investor a long dated secure income stream, often with fixed or index linked uplifts from strong covenants in a robust sector with relatively low levels of obsolescence, supported principally by e-tailing. The sector was once dominated by UK institutional investors but is now attractive to other buyers such as private high net worth individuals from both the UK and overseas, local authorities and bespoke distribution investment funds.

Multi-let industrial property generally offers more active management potential and as such appeals more to experienced investors with a historic specialism in this sector. The lower average lease length (typically five years) in comparison to distribution units (ten to 30 years) is offset by a diversification of covenants on a single estate and the ability to employ management initiatives to increase rental tones.

The market for sub £5 million lot sizes is generally dominated by private investors and small property companies. Competition for the larger estates of £10 million and above is principally between the UK institutional investors attracted by the growth potential driven by the lack of available supply in the occupier market. Some of the principal transactions are in the table opposite.

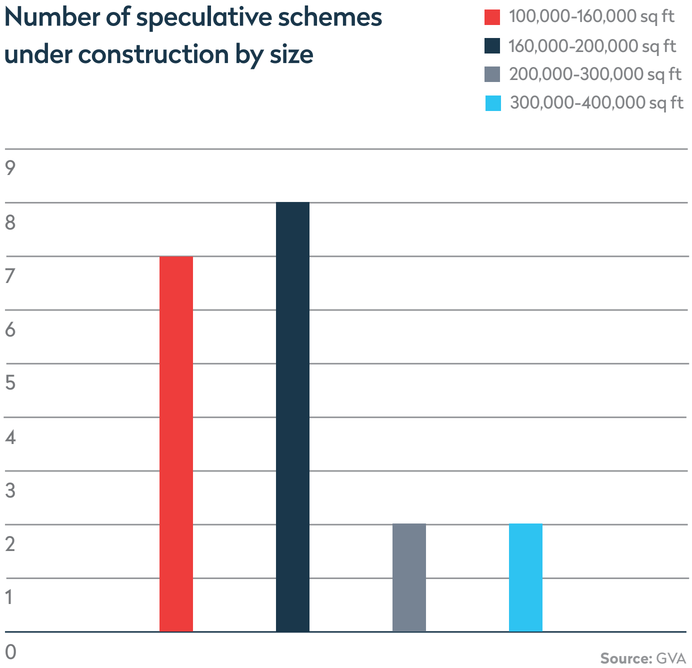
The IPD Quarterly Index has recorded a **total return** of 6.1% for distribution property in 2016, with little movement in capital values (0.6%). Clearly total returns performance in 2017 will continue to be impacted by the 'leave' vote, but a potential modest upward shift in all property yields is likely to result in a return in the region of 6%. As with rental growth, there is a higher than usual level of uncertainty over the outlook and an unfavourable outcome to the forthcoming Brexit negotiations (from the UK's point of view) could have a negative impact.

However, restricted supply will support **rental growth** performance for high quality existing stock and the significant weight of global capital looking to invest will maintain values. Brexit has not altered the fundamental benefits of investing in UK commercial property. Ultimately, commercial property is a long-term investment and we believe investors will continue to take a long-term view.

Speculative development 2017

Projected speculative development completions 2017

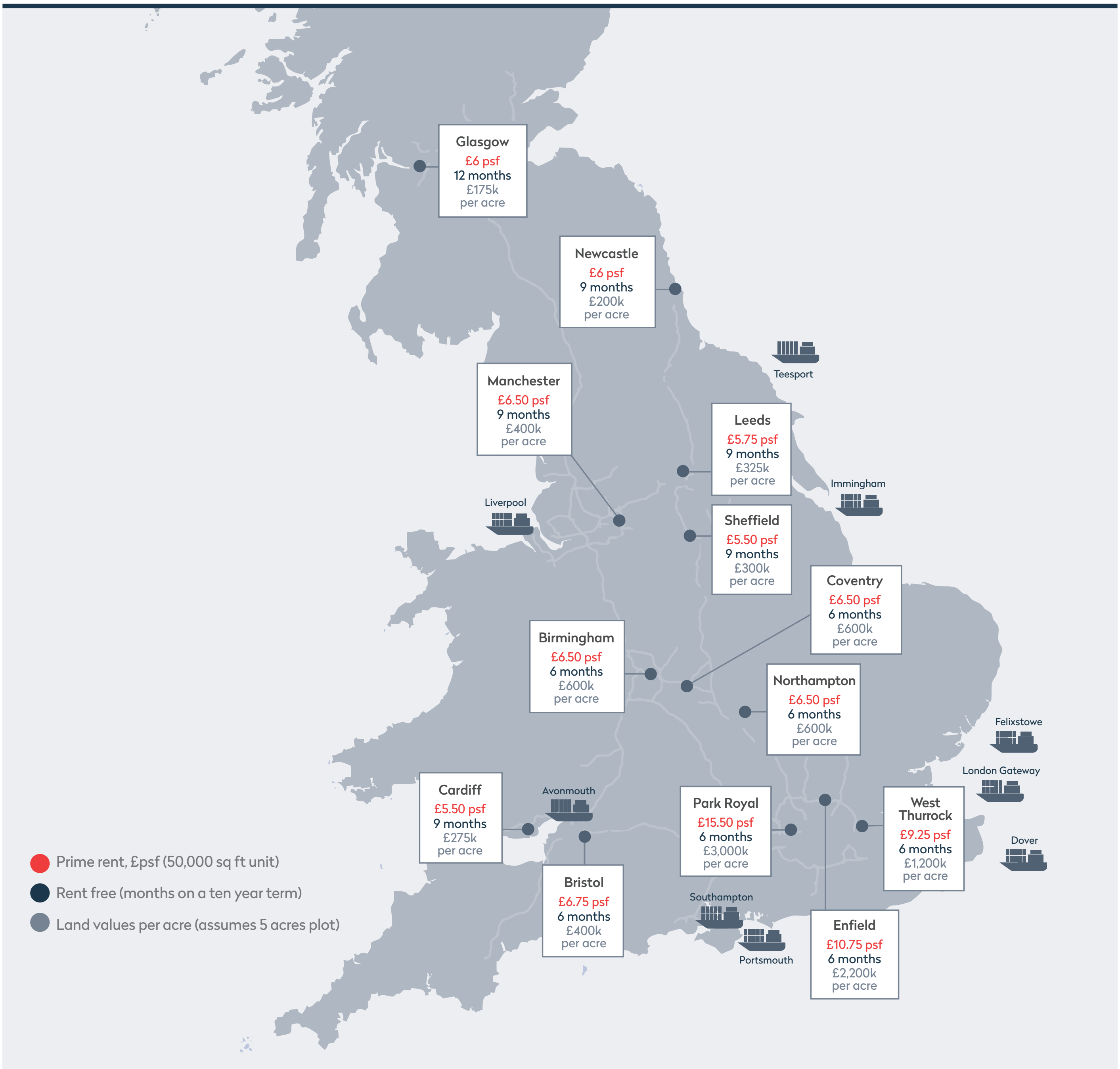
Number of speculative schemes under construction by size



Key speculative schemes

Scheme	Sq ft	Completion	Asking rent (£psf)	Developer
Kingswood Lakeside, Cannock	372,000	Q2 2017	6.00	Exeter / Graftongate
Imperial Park, Siskin Parkway, Coventry	346,927	Q1 2017	6.50	Peel / M&G
Unit 1 Marston Gate, Milton Keynes	274,835	Q2 2017	7.50	Prologis
Carbon 207, Middlemarch, Coventry	207,340	Q2 2017	6.50	Blackrock / Stoford
Mountpark Bristol	199,500	Q2 2017	6.75	Mountpark / Stoford
Iport, Doncaster	195,000	Q2 2017	5.75	Verdion

UK land values and rents



GVA are letting agents on all schemes (from top)

Vision, Stansted. GVA are acting for Royal London Asset Management

Horizon 38, North Bristol. 326,000 sq ft phase A of the mixed use development by St Francis and iSec is under construction

Link 95, Hareshill Distribution Park, Heywood, Greater Manchester. Developed by Graftongate and Aviva

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