GVA

Industrial Intelligence

Spring 2018

L175 Liverpool Business Park. A development by Peel Logistics, advised by GVA.

UK Occupier overview

The big shed distribution market has been characterised by strong take-up in the manufacturing, third party logistics and non-internet retail sectors in 2017. Activity was strongest in the prime corridor of the South East, Midlands and North West.

Take-up of new / modern warehouses over 100,000 sq ft totalled 20.6 million sq ft in 2017 (Figure 1). This is just below the ten year average of 21.1 million and unsurprisingly well below last year's record year of 27.5 million sq ft. Activity during the second half of the year added 9.6 million sq ft to the H1 total of 11 million sq ft.

It has been a strong year for the **manufacturing** sector (25% of take-up – Figure 2) which has benefitted from the weaker pound providing a boost to export markets. There were key deals to Accrol Papers and Beko as well as a number in the automotive sector such as Grupo Antolin who took 233,000 sq ft in two deals.

The **non-internet retail** sector accounted for 28% of take-up in 2017 and some of the largest deals including 750,000 sq ft to Lidl at Gateway Peterborough and H&M at Magna Park, Milton Keynes.

In the **third party logistics** sector (24% of take-up) Eddie Stobart took 1.7 million sq ft of space in five deals, mainly close to the golden triangle and XPO logistics leased 900,000 sq ft in two deals. In the parcels sector DHL added a further building to its two deals earlier in the year.

Internet retail was much less active in 2017 and accounted for the difference between 2017 and 2016's record year. There were no further deals to Amazon following the five deals during the first half of the year, although further deals have been announced in Q1 2018. The company agreed the largest deal of 2017 – 1.1 million sq ft at Central Park, Bristol.

Occupiers are starting to look at **non-prime locations** where labour availability and rents provide lower cost solutions. There are greater pre-let opportunities and there is less competition for sites from speculative developers who continue to concentrate on prime locations.

There is still a significant appetite for **speculative development** although there has been a slight reduction in new starts. This is due to a combination of fewer opportunities as land availability tightens and some funds ensuring take-up of existing schemes before starting further development. However new entrants in the market have announced ambitious plans and are bidding competitively for sites.

Current available stock of modern big sheds amounts to 24.3 million sq ft, approximately 14 months' supply (Figure 5). With a relatively modest level of speculative schemes completing and an expectation that current demand levels will be maintained, we expect supply to remain relatively constrained.

35% of available schemes are over 200,000 sq ft. The largest available buildings are in the East Midlands where the average size is 237,000 sq ft. This compares to a comparatively modest average size in the West Midlands and South East at 185,000 sq ft, the other two regions where there are over 25 buildings available.

Pressure on **land values** continues (Figure 6). Across the 13 locations that we monitor land values have increased by an average of 6.5% over the past year, with the largest increase in the Midlands (12%).

Outlook

The structural changes in the retail sector will maintain pressure on demand for big sheds and particularly urban logistics where space requirements are expected to increase in step with the 10% annual increase in online retail sales.

This will mean further stress on industrial land availability which is competing with higher value uses, and will maintain pressure on land values in prime areas. As such, we expect a continuation of low vacancy rates and relatively strong rental growth between 4% and 5% for average industrial in 2018, similar to last year.

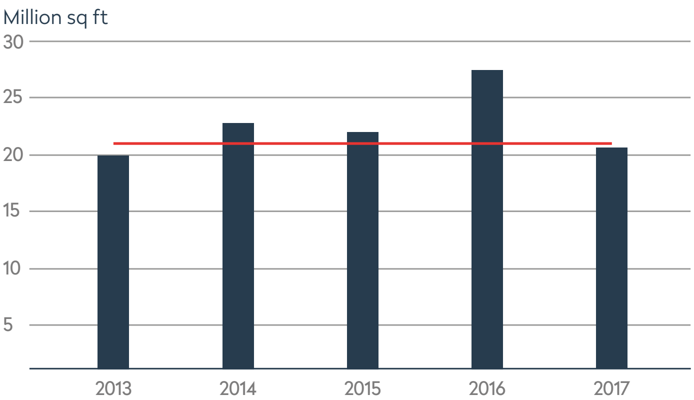
We anticipate discount retailers will continue to flourish as pressure on household spending persists and interest rates are likely to increase.

193,000 sq ft Euroway 26, Bradford. GVA are letting agents on behalf of L&G

Market at a glance

Figure 1

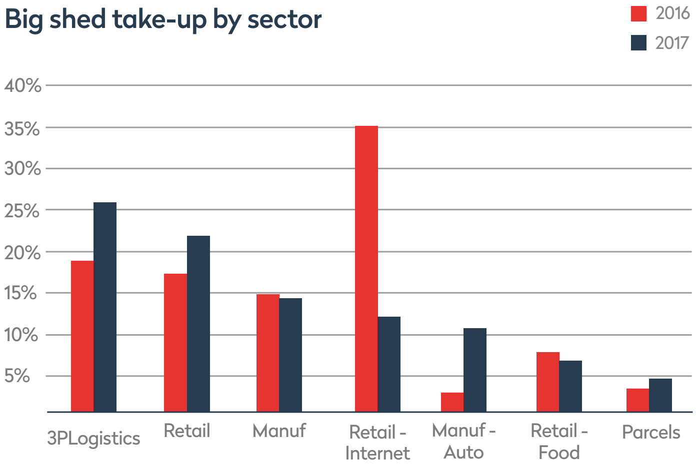
Big shed take-up (over 100,000 sq ft)



Source: GVA

Figure 2

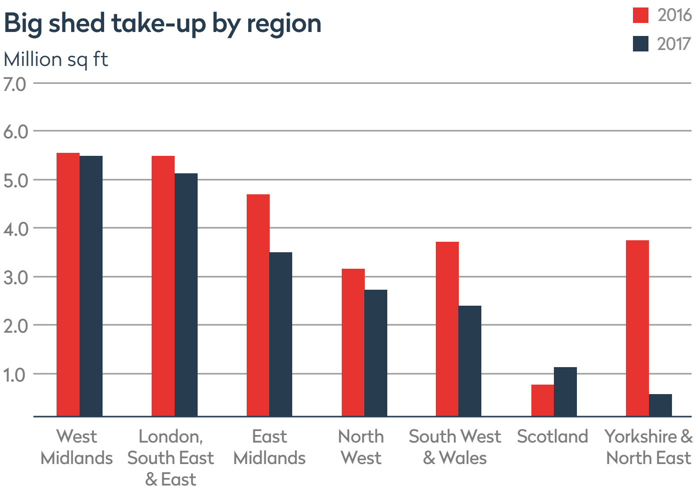
Big shed take-up by sector



Source: GVA

Figure 3

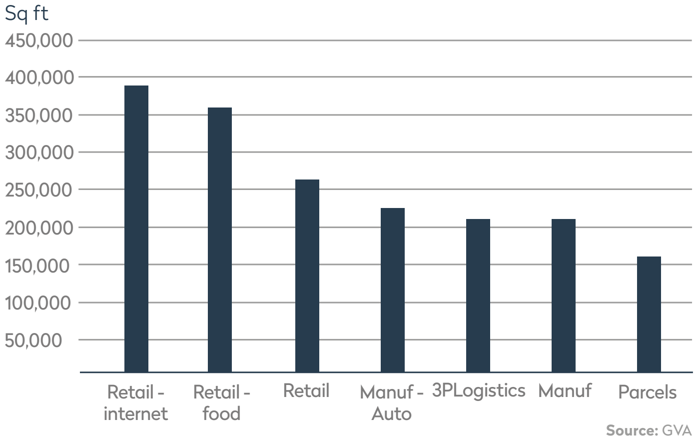
Big shed take-up by region



Source: GVA

Figure 4

Average deal size by sector - 2016/17



Source: GVA

Figure 5

Availability of big sheds (over 100,000 sq ft)

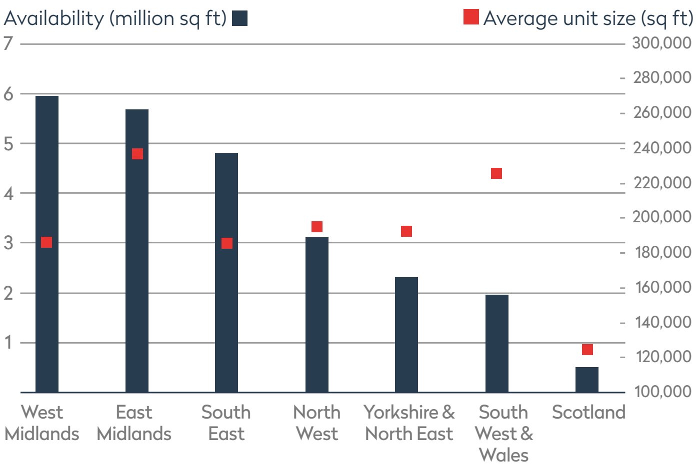
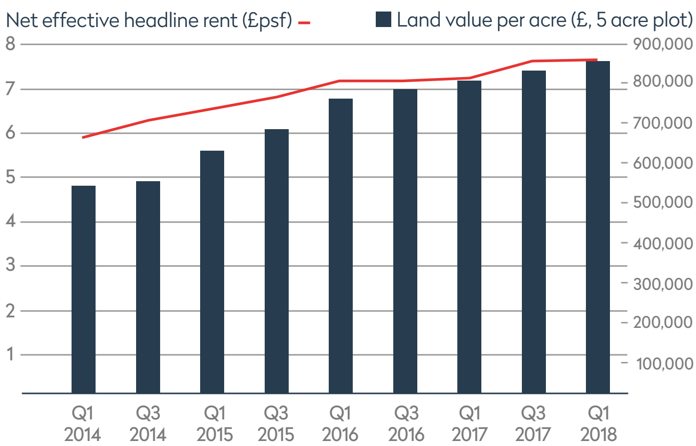


Figure 6

Average industrial land values and headline rents



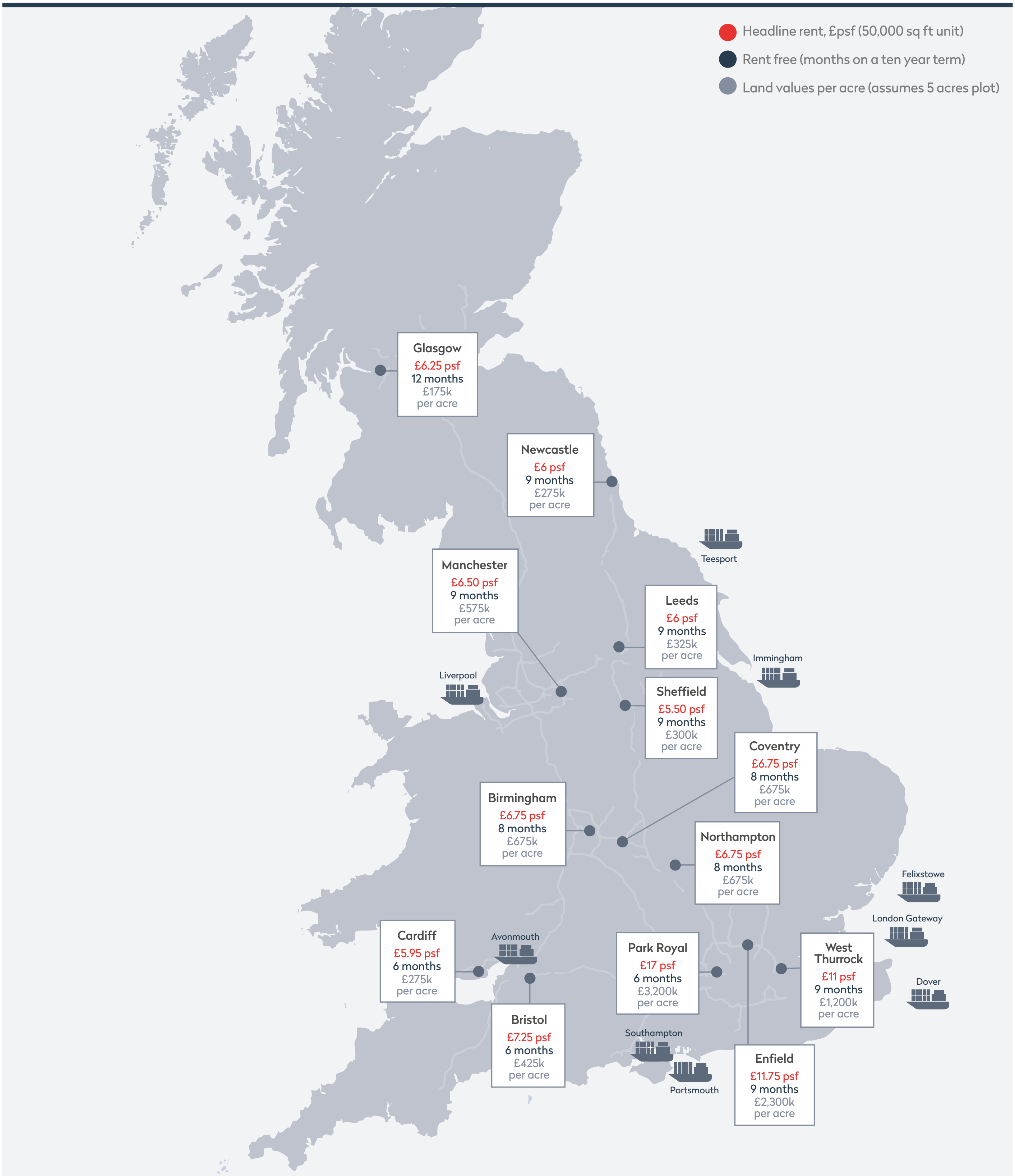
Key Availability Q1 2018

Scheme	Town	Sq ft
Cross Point Business Park	Coventry	685,000
Sheffield 615, Shepcote Lane	Sheffield	615,000
Altitude, Magna Park	Milton Keynes	574,000
Tectonic 500	Chesterfield	500,000
Unit 5320 Quantum, Magna Park	Lutterworth	411,600
Cribbs Causeway Centre	Bristol	384,000
Central Park	Rugby	376,869
M6DC Kingswood Lakeside	Cannock	375,465
DC372 ProLogis Park, Pineham	Northampton	372,280
Middlewich T353	Middlewich	353,102

H2 2017 big shed deals

Property	Occupier	Sq ft	Date
Midlands Logistics Park, Corby	Eddie Stobart	850,000	Dec 17
Gateway Peterborough	Lidl	754,000 (34 acres)	Oct 17
Magna Park, Milton Keynes	H&M	750,000	Sep 17
Warth Park, Raunds	Howdens	657,000	Nov 17
Prologis London Gateway	Dixons	316,560	Sep 17
Unit 2 Mountpark, Bardon	Eddie Stobart	311,000	Nov 17
Brackmills, Northampton	Decathlon	310,000	Sep 17
Warth Park, Raunds	Howdens	300,000	Nov 17
Newhouse Farm Industrial Estate, Chepstow	CM Downton	282,000	Aug 17
Marston Gate, Milton Keynes	XPO	275,000	Sep 17
West Mains Road, Grangemouth	WH Malcolm Ltd	260,000	Nov 17
RG3 Rugby Gateway	DHL	227,000	Jul 17
Former Asda Unit, Southmead Park	Accord Healthcare	223,212	Nov 17
100 Scimitar Way, Coventry	Kuehne + Nagel	214,188	Nov 17
213 Fradley Park, Lichfield	Anixter	213,000	Dec 17
Optimus Point, Leicester	Mattel Toys	204,700	Nov 17

Headline rents and land values

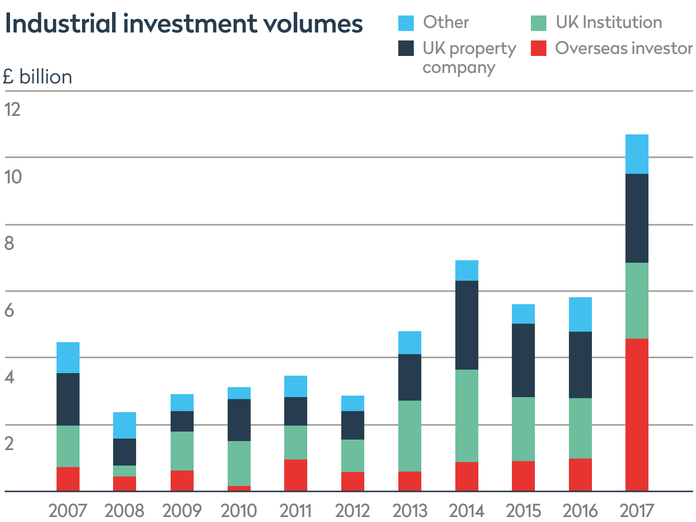


Investment Overview

In a climate of wealth protection, low returns and demand for secure assets the industrial market continues to provide a very positive growth story to drive returns. As such it is now taking a greater share of the investment market compared to other sectors (17% of all commercial property transactions in 2017 compared to 12% in 2016 and 8% in 2015, according to Property Data).

Industrial investment volumes reached £10.7 billion during 2017, well above the previous best of £6.9 billion in 2014. Overseas investors accounted for a record 43% of the total, boosted particularly by investment from the Far East.

Yields have continued on a downward trend since the post-referendum adjustment. According to MSCI average equivalent yields for industrial property fell from 6.4% to 5.8% over the year to December 2017. This is a record low and 30 basis points below the peak of the market in 2007.



The **distribution** market continues to be highly competitive as it matches investors' demand criteria in many respects. The distribution/pre-let market frequently offers long dated income, often to strong covenants with fixed or index linked uplifts which offers the investor the ability to match returns against liabilities.

A wider pool of investors is now venturing into this sub-sector. Despite growing competition, UK institutional investors such as London Metric and Liberty Properties remain dominant, particularly in the £10m-£30m lot size bracket whereas Tritax Big Box REIT, overseas money and some UK funds compete in the £30m+ bracket.

The market enables investors to allocate significant sums in one transaction as many are under pressure to decrease their cash weightings. However competition is exacerbated by the lack of available stock, driven by land constraints, higher build costs and a shortage of skilled labour.

More investor types are inquisitive about the **multi-let** sector and the market demand is likely to increase over the next 12 months. The market does still require experienced purchasers with existing management capabilities and an in-depth knowledge of locations and occupiers. The dominant purchasers remain the UK institutional investors and UK property companies. However estates attract a wide pool of purchaser types including local authorities and overseas investors.

New multi-let estates are not being built as they are hard to pre-let and most investors will not fund builds unless pre-lets are agreed. There is a preference for developers to build simpler and cheaper single distribution units which are also easier to secure a pre-let.

However the lack of available stock for the occupier and limited development pipeline provides opportunities to drive rental values. Opportunities to investors are also provided by good estate management practice, low obsolescence and refurbishment costs and the ability to sell units to owner occupiers as a fall-back position. The growth story is a rare commodity and is essential for fund performance targets.

Forecast

The current buoyancy of the industrial sector to investors, along with the weight of money and relative scarcity of supply will continue to be supportive of downward yield movement, particularly for quality defensive stock. Industrial property will continue to provide an attractive income return in a low growth, low interest rate environment. Following very strong capital value growth of 15% for 2017 we expect a more modest 5% in 2018. With an income return of around 5%, this equates to a total return of 20% and 10% respectively.

Distribution comparables

Date	Location	Area (sq ft)	Unexpired term (years)	Rent (£psf)	Tenant/Purchaser	Price	NIY
Jan–18	RAUNDS, Warth Park	957,000	30	£5.50	Howdens Joinery Group Plc/ Tritax Big Box REIT	£103,700,000	5.0%
Dec–17	MEDWAY, London Medway Commercial Park	266,570	4	£6.61	Wincanton/Torbay Council	£30,000,000	5.5%
Dec–17	CRAWLEY, Focal Point	71,000	4.5	£8.15	Geopost UK Ltd, N Froy & Sons/ Valor Real Estate Partners	£17,200,000	3.2%
Dec–17	WORCESTER, Worcester Six	140,000	15	£5.35	Kimal/Liberty Properties Plc	£13,000,000	5.0%
Dec–17	BEDFORD, Apex Business Park	104,000	20	£6.25	Primaflow Ltd/BlackRock UK Property	£16,000,000	3.8%
Nov–17	OLLERTON, Boughton Industrial Estate	377,000	20	£4.87	Clipper Logistics Plc/London Metric Property Plc	£37,400,000	4.6%
Nov–17	BOLTON, Wingates Industrial Park	274,000	4	£5.11	Tesco Distribution Limited/ CCLA	£24,400,000	5.4%
Nov–17	HARLOW, Third Avenue	62,000	9.5	£6.47	GSK/Palmer Capital	£7,750,000	4.8%
Nov–17	BOLTON, Amazon, Logitics North	359,000	14.75	£5.70	Amazon UK Services Ltd/Aviva Investors	£44,200,000	4.3%
Oct–17	READING, Island Road	115,000	15	£8.71	DHL, Vacant/Equities Property	£29,000,000	4.2%
Sep–17	COVENTRY, Prologis Park	302,000	5 (15 to expiry)	£6.25	Network Rail Limited/CBRE Global Investors	£35,800,000	4.9%

Multi-let comparables

Date	Location	Area (sq ft)	Unexpired term (years)	Rent (£psf)	Purchaser	Price	NIY
Jan–18	The Griffin Centre, Feltham	104,305	5.2	£8.87	St James's Place PF	£20,900,000	4.15%
Jan–18	Stover Trading Estate, Yate, Bristol	275,875	6.95	£5.63	Royal London Asset Man	£21,850,000	6.66%
Dec–17	Sandown Industrial Park, Esher	58,803	6.2	£9.39	Elmbridge Borough Council	£14,075,000	3.68%
Dec–17	Centro, Boundary Way, Hemel Hempstead	61,776	9	£10.12	DTZ Investors	£13,200,000	4.50%
Dec–17	Gateway 25, Thurrock	95,536	4.4	£7.00	Fidelity UK REF	£14,750,000	4.20%
Dec–17	Cliffe Trading Estate, Lewes	190,629	5.5	£6.66	Columbia Threadneedle	£23,420,000	5.20%
Nov–17	SG1, Stevenage	79,799	5.1	£7.78	M&G Real Estate	£13,500,000	4.35%
Nov–17	Odhams Trading Estate, Watford	125,476	6	£8.64	M&G Real Estate	£25,600,000	3.97%
Oct–17	Crown Business Centre, West Drayton	69,214	5	£11.46	St James's Place PF	£19,340,000	3.90%

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