At a Glance

BIG SHED LOGISTICS MARKET

July 2015

Headlines

ONE

Take-up reached 13.6m sq ft for H1, up 7% on the first six months of 2014.

TWO

7.6m sq ft of speculative development has begun since the start of the year, but more will be required to keep pace with tenant demand.

THREE

Investment market has continued to see prices harden. £1.8bn has been transacted (YTD) which represents the second strongest start to a year ever recorded.

The stats ... at a glance

Take-up
13.6m sq ft
▲ 7% on H1 2014

Prime yields
5.0%
▼ 50bps on H1 2014

Spec development starts
7.6m sq ft
2.54m sq ft completed in 2014

Investment
£1.8bn
▼ 16% on H1 2014

Leasing

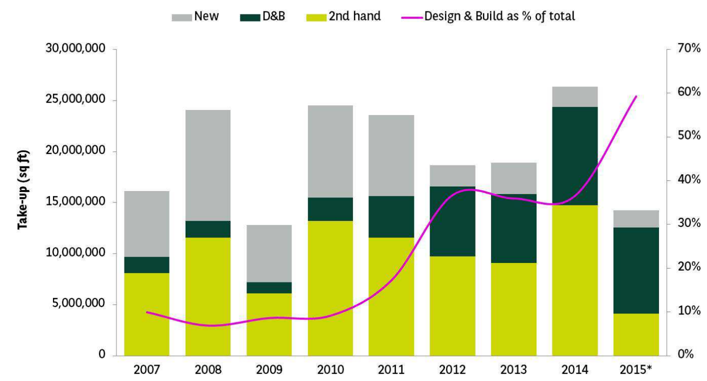
- Take-up for the first half of 2015 has continued at a pace, with 13.6m sq ft of 'Big Shed' deals being completed so far this year.
- 2014 saw an exceptional level of take-up recorded, but so far 2015 is 6% up on last year's total to end-June.
- Once again take-up has been dominated by Design & Build (D&B) deals, with BNP Paribas Real Estate recording over 8.4m sq ft of D&B deals to end-June.
- The discount retailers really have led the way with Aldi, Lidl and TJ Morris committing to over 1.7m sq ft, including new hubs in Scotland and Wales for Lidl and Aldi, respectively.
- The lack of built supply has been an issue for sometime now and this has been represented in both the amount of D&B deals, as well as the number of speculative schemes that are currently under construction, or in the latter stages of planning.
- There has been over 7.6m sq ft of speculative development undertaken during the course of 2015 thus far.
- The joint-venture between Goodman and Anglesea has committed to nearly 1m sq ft of development whilst IM Properties announced the third phase of their hugely successful Birch Coppice scheme.
- Finally, the rental tone continues to crank upwards, with the £6 per sq ft barrier well and truly broken now in the Midlands and other regions now seeing upwards pressure.
- The BNP Paribas Logistics Index recorded rental growth of 1.3% for Q1 in the West Midlands, the strongest rental growth recorded on the Index since 2002.

Investment

- The logistics investment market has seen a somewhat more subdued start to the year when compared to the volumes transacted during 2014.
- Although this should be taken in context, with the first six months of 2015 recording the second largest volume of transactions on record, up 61% on H1 2013.
- LogiCor and Tritax have led the way and have accounted for c.45% of the volume of deals done.
- LogiCor's purchase of Oaktree and Anglsea's logistics portfolio of 16 warehouses for £373m puts them second to top spender Tritax, who have continued on their shopping spree, parting with £409m and snapping up a series of assets let to strong covenants on long term leases, as well as providing forward funding to both Dunelm Mill (£43.4m) at Prologis Park Sideway and Ocado in South East London (£98.8m).
- Whilst volumes have failed to match those seen last year, pricing certainly has not relented.
- Convinced by the buoyant occupational story in the logistics sector currently, a number of funds are actively trying to deploy their capital into the sector but are being left frustrated.
- There has been thus far, both, a lack of opportunities, particularly within London, the South East and the logistics heartlands of the Midlands' 'Golden Triangle' and adding to this frustration is that when opportunities do arise, bidding wars are taking place.
- The knock-on effect has seen yields nose-dive, with ten deals completed this year at sub 5.2% net initial yield (NIY) and 50% of these have been within the M25.
- In the last three months, Brake Brothers shed at Harlow was bought for 5% by Tritax and L&G paid AXA £53.7m for Barking Rail Freight Terminal, which represented a 4.8% (NIY).
- Standard Life's 4.2% (NIY) forward funding deal of a new 638,000 sq ft John Lewis distribution centre set a new benchmark for 'Big Sheds' earlier in the year, but L&G's purchase of a Waitrose unit in Chorley, Lancashire at 4.17% (NIY) has since broken that barrier and demonstrates how pricing has sharpened through 2015.
- Whilst not strictly a 'Big Box' logistics unit, Appin House and Stewart Quay in Hayes, which comprises c.25,000 sq ft of warehousing space with 19 years income remaining, is reportedly under offer at 3.5% (NIY), which demonstrates just how hot pricing is currently, particularly once you enter the M25.

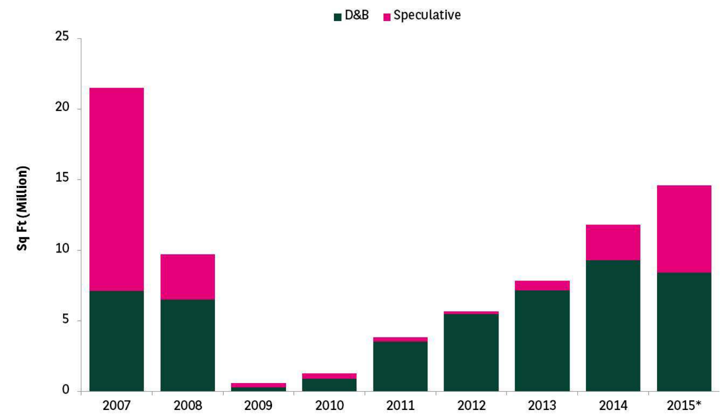
1. SCREWFIX—230,500 SQ FT AT PROLOGIS PARK, STAFFORD
2. AMAZON—310,000 SQ FT AT PROLOGIS PARK, DUNSTABLE
3. CLIPPER LOGISTICS FOR ZARA —342,000 SQ FT AT GRANGE PARK, NORTHAMPTON
4. B&M—350,000 SQ FT AT ONYX350, RUNCORN
5. B&M—460,000 SQ FT AT MIDPOINT 460, MIDDLEWICH
6. THE RANGE—256,640 SQ FT AT DEARNE MILLS, BARNSLEY
7. LOGIC 233, DAGENHAM (232,965 SQ FT)
8. DC 380, HARLOW (377,970 SQ FT)
9. FRADLEY 390, LICHFIELD (390,000 SQ FT)
10. JOHN LEWIS UNIT, MILTON KEYNES—STANDARD LIFE PAID £85M (4.2% NIY) 25 YEAR LEASE WITH RPI UPLIFT(1.5%-2.5% CAP & COLLAR)
11. BRAKE BROS UNIT, HARLOW—TRITAX BIG BOX REIT PAID £37.2M (5% NIY) 24.5 YEARS UNEXPIRED WITH RPI UPLIFTS
12. WAITROSE RDC, CHORLEY—L&G PAID £50.8M (4.17% NIY) 27 YEAR LEASE WITH RPI UPLIFT (2%-5% CAP & COLLAR)
13. G. PARK, DAVENTRY—297,000 SQ FT DEVELOPED BY IDI GAZELEY (AVAILABLE AUGUST 2015)
14. RUGBY GATEWAY, RUGBY—230,000 SQ FT DEVLEOPED BY SEGRO AND ROXHILL (AVAILABLE AUGUST 2015)

Take-up



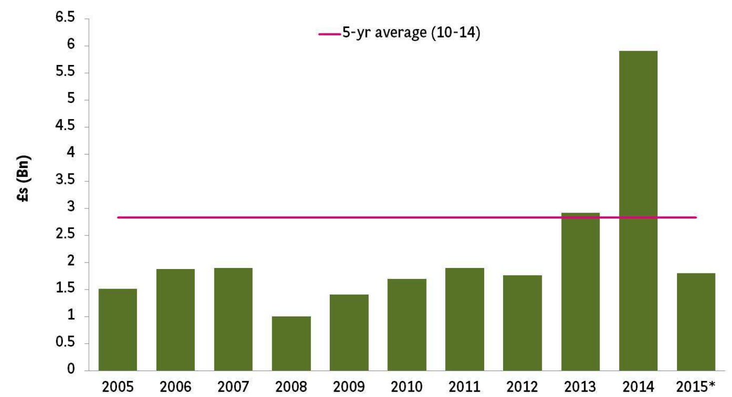
Source: BNP Paribas Real Estate
* End June 2015

Development Starts over 100,000 sq ft



Source: BNP Paribas Real Estate
* End June 2015

'Big Shed' Investment Volumes



Source: BNP Paribas Real Estate
* End June 2015

Agent's Outlook

Hugh White, Head of National Investment, provides his opinions and expectations for 2015...

- Whilst 2015 has not seen investment volumes keep up with what happened during 2014, yields have continued to compress significantly during the year, with further compression to come over the remaining six months.
- The logistics investment market has been dominated by two types of buyer, institutional annuity buyers such as L&G, who purchased a Waitrose unit in Chorley for £50.8m at 4.17% (NIY) and Standard Life who provided £85m of forward funding for a John Lewis shed at G Park in Milton Keynes, let to John Lewis for 25 years.
- The second has been the specialist logistics investors, Tritax, who launched the Tritax Big Box REIT and the Blackstone backed LogiCor, who between them have accounted for nearly half the volumes of investments done this year.
- We have seen increased levels of speculative development and development funding thus far as investors buoyed by the occupational demand, investors are now looking further up the risk curve to try and generate the levels of returns that are now not available at current pricing levels.
- Meanwhile, the Greater London industrial market has witnessed a fundamental shift in yields. Long leases with fixed increases are now achieving yields in the range of 3.5%-3.75% NIY led by the ever decreasing supply as more central locations such as Battersea, Nine Elms and White City are redeveloped.

Data

Take-up & Supply (end June 15)	Sq ft (millions)	Change H1 '15-on-H1 '14
Take-up	13.6	6.8% ↗
Supply (All Grades)	34.1	- 22.3% ↘
Take-up by Business Sector	**Sq ft (millions)**	**Change H1 '15-on-H1 '14**
Logistics (inc 3PL)	3.9	48.1% ↗
Retail	8.5	85.6% ↗
Manufacturing	0.8	- 65.3% ↘
Other	0.4	- 83.2% ↘
Take-up by Grade	**Sq ft (millions)**	**Change H1 '15-on-H1 '14**
Design & Build (D&B)	8.43	52.2% ↗
New	1.64	77.1% ↗
Other	6.42	-44.7% ↘

Waitrose RDC, Matrix Park, Chorley—purchased by L&G for £50.8m at 4.17% (NIY)

CONTACTS

Jonjo Lyles
Director, Industrial and Logistics Agency
+44 (0)20 7338 4366
Jonjo.lyles@bnpparibas.com

Hugh White
Head of National Investment
+44 (0)20 7338 4415
hugh.white@bnpparibas.com

Ed Cornwell
Senior Director, Investment
+44 (0)20 7484 8126
edward.cornwell@bnpparibas.com

Richard Stevens
Senior Director, Lease Advisory
+44 (0)20 7484 8139
richard.c.stevens@bnpparibas.com

Robert Taylor
Associate Director, Research
+44 (0)20 7338 4257
robert.j.taylor@bnpparibas.com