

PRIME LOGISTICS

The definitive guide to the UK's distribution property market
Q4 2016 Bulletin



Quarterly summary

- 2016 was a record-breaking year for the UK logistics market
- 13.9 m sq ft taken-up in Q4, the strongest quarter on record
- 50.6 million sq ft of space taken-up during 2016
- Availability rate falls to all time low, even including new speculative development
- Continued upward pressure on rental growth
- Strong levels of investor interest and new yield benchmarks set



GERALDEVE

Q4 HIGHLIGHTS



**13.9 MILLION SQ FT
TAKEN-UP DURING Q416
LARGEST QUARTER ON RECORD**

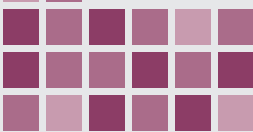
50.6
MILLION SQ FT
SPACE TAKEN-UP DURING
2016
LARGEST ON RECORD

a TAKE-UP
8.5 MILLION
SQ FT
2016



**MOST ACQUISITIVE OCCUPIER Q4
1.54 MILLION SQ FT**

IN 2016
10.1 MILLION SQ FT
SPECULATIVE SPACE
COMPLETED
DEVELOPMENT



UK LOGISTICS AVAILABILITY RATE
6.2%

LOWEST ON RECORD

AVERAGE UK PRIME YIELD
5.6%

LOWEST IN 10 YEARS

Q4 DEALS

Occupier

Tenant	Property	Location	Size (sq ft)	Deal type
Howdens Joinery	Warth Park	Raunds	657,000	Pre-let
Lidl	IP3, iPort	Doncaster	628,000	Development sale
Lidl	Logistics North	Bolton	600,000	Development sale
Screwfix	Prologis Park Fradley	Lichfield	562,000	Pre-let
Great Bear Distribution	Markham Vale	Chesterfield	479,285	Pre-let
Amazon	Lyons Park	Coventry	430,560	Pre-let
Confidential	Apex Park	Daventry	416,000	Pre-let
Yusen Logistics	Sywell Road	Wellingborough	379,000	Pre-let
Amazon	360, Logistics North	Bolton	358,822	Letting
Amazon	Prime@Omega	Warrington	356,192	Letting

Source: Gerald Eve

Investment

Property	Purchaser	Vendor	Price (£m)	Size (sq ft)	Yield (%)	Tenant(s)
Nevado Portfolio	Blackstone Real Estate	Clearbell Capital	125.0	1.6m	6.14	Various
Warth Park, Raunds	Tritax Big Box REIT	Roxhill Developments	101.8	957,000	5.10	Howdens
Birch Coppice, Tamworth	Tritax Big Box REIT	M&G Property Portfolio	80.1	781,000	5.04	Euro Car Parts
Alecta UK Portfolio (industrial element) ■	Goldman Sachs	Alecta/Aviva	71.0	712,000		Various
Oliver Road, Thurrock	Tritax Big Box REIT	TIAA Henderson	56.5	323,000	5.53	Co-operative Group
Omega South, Warrington	The Hut Group	LondonMetric Property	53.7	690,000	6.60	The Hut Group
Prologis Park Fradley	Tritax Big Box REIT	Prologis	52.7	562,000	5.50	Screwfix Direct
Northampton, Dunstable and Redditch	Pears Property	British Steel Pension Fund	43.0	554,908	6.25	Various
DC380, Edinburgh Way, Harlow	Ares Management	Commerzbank	36.0	380,000	7.02	Industrial Tools Services
3 x Logistics Portfolio ■	Moorfield	M&G	27.0	496,000	7.00	Various
Rockingham Way, Doncaster ■	Blackrock	NFU Mutual	24.0	263,624	6.00	Next
Banbury Cross, Banbury ■	M&G	Aviva	21.4	238,206	5.37	The Entertainer

■ Gerald Eve advised. Sources: Property Data, Gerald Eve

Occupier Market

Richard Ludlow, Partner

“ Despite the uncertainty in the broader commercial property market, 2016 was a great year for logistics, and we saw unprecedented levels of occupier demand. Retailers were key to this growth, and the continuing shift to online retail has meant that supply chain efficiency is now absolute top priority for retailers. Despite the critical supply shortage of available space, occupiers are committing heavily to space through pre-lets or land purchases and speculative developments are letting-up quickly. Amazon was the most acquisitive occupier, committing to around 8.5 million sq ft throughout 2016, but it was discount food retailers such as Lidl who made some of the largest commitments during Q4.

Investment Market

John Rodgers, Partner

“ We continue to see large volumes of domestic and foreign capital targeting both prime well-let logistics facilities and smaller 'last mile' sheds. The strength of the occupier market and the attractive income component of the asset make it a very compelling case for investment. We continue to see strong competition for the opportunities that arise and yields on a handful of transactions have trended sharper than before the referendum. Whilst funds have limited their exposure to speculative funding of late, this is expected to perpetuate the environment of low supply and further increases the prospects for rental growth through 2017.

Record-breaking levels of occupier demand

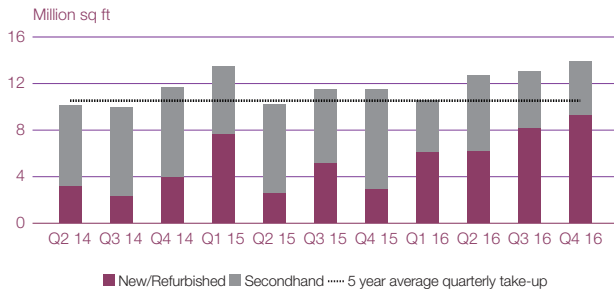
Take-up rose by 6% to 13.9 million sq ft in Q4, the strongest quarter of take-up since our records began in 2005 and comfortably above the five year quarterly average of 10.5 million sq ft. An efficient supply chain and strong logistics network has seemingly never been more important to occupiers.

We saw the average size of building transact increase again to 173,958 sq ft from 163,640 sq ft in Q3 2016, which is far in excess of the ten year average deal size of 137,398 sq ft. This increase was heavily driven by activity on new or refurbished stock, which accounted for 67% of all demand in Q4. The restricted supply of existing buildings has forced occupiers to design-and-build facilities for themselves and they are building them larger than ever before.

Whilst we have seen widespread activity across all regions and across all types and sizes of building, the Southern East Midlands enjoyed the most occupier demand out of all regions during Q4, with over 3 million sq ft transacted. Greater Manchester had a busy quarter too, with 1.9 million sq ft transacted.

Quarterly take-up and 5 year average

Source: Gerald Eve



Occupier demand has grown steadily since 2012

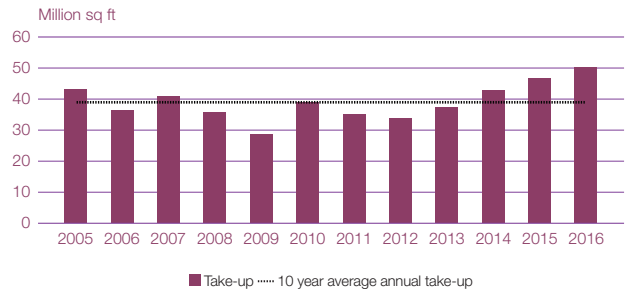
Since 2012, we have seen year-on-year growth in demand for logistics property. More consumers are buying goods online and December ONS data suggests that the amount spent online accounted for 16% of all retail spending, with the average weekly spending online increasing by 25% during 2016. This growth, has increased the order books of retailers, manufacturers and logistics companies and has channelled elevated levels of demand into logistics facilities.

This has posed a conundrum to occupiers in how best to arrange their network to capitalise on this growth. There is no one-size-fits-all answer and different occupiers have reacted to this growth in different ways. The lack of up-and-built product has, however, channelled demand into the pre-let or development market.

Amazon is a case in point and was again very acquisitive during Q4, taking around 1.4 million sq ft over four buildings, pushing their total for the year to 8.5 million sq ft. Discount food retailers, in particular Lidl, were also very acquisitive in Q4. Lidl committed to four buildings during Q4 totalling over 1.5 million sq ft, including the purchase of 44 acres at Logistics North.

Annual take-up and ten year average

Source: Gerald Eve



Availability at all-time low

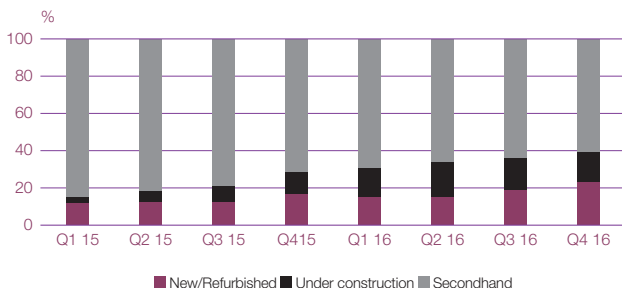
Even including the available speculative space under construction, overall availability rates decreased further to 6.2% and ended the year at the lowest level on our records.

Whilst we have seen an increase in the volume of newly-developed speculative space within our availability figures, which in turn has increased the quality of choice on offer to occupiers, the volume of available secondhand space is critically low. We have not seen the return of secondhand stock that could be expected in times of strong pre-letting activity and occupiers are strongly expanding their overall occupancy of warehouses.

There are occupiers in need of more affordable space with few options to choose from, which has to some extent constrained demand levels. It is worth bearing this in mind, given that 2016 proved to be a record year for take-up. This is unlikely to feed through into increased volumes of speculative development in the short term however, as these occupiers have to date proved themselves willing to commit to pre-lets, and funds' appetit for further speculative development has softened.

Availability by quality

Source: Gerald Eve



Speculative development slows

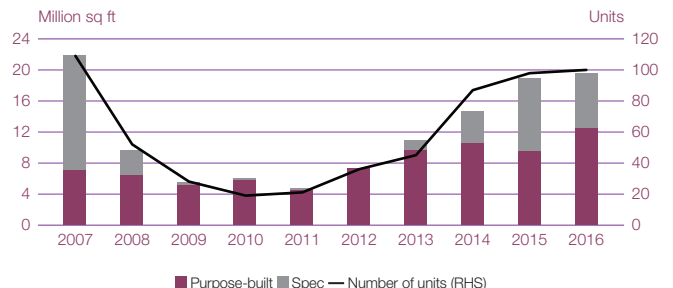
With 10 buildings totalling just over 1.5 million sq ft getting underway in Q4 2016, the number and volume of speculative development starts remain at levels which are comfortably in tandem with demand. The total volume of development starts, including purpose-builds, decreased by 43% in Q4, although there were still 22 buildings totalling 4.3 million sq ft which got underway and just under 20 million sq ft of space commenced development during the whole of 2016.

Large purpose-built schemes, such as Screwfix's warehouse at Prologis Park Fradley, Gestamp Tallent's warehouse in Wolverhampton, Alstom's 300,000 sq ft first phase of its technology centre in Widnes and Elite Furniture's 244,000 sq ft new factory in Goole all got underway during Q4.

At 7 million sq ft (accounted for by 35 buildings), the total volume of development completions in Q4 showed a 50% increase on the 4.6 million sq ft completed in Q3 2016. The proportion of speculative space completing development decreased from 56% of all completions to 31%. Geographically, there has been an increased number of buildings completed speculatively in the Northern East Midlands and the Greater Manchester area.

Annual development starts by type

Source: Gerald Eve



Demand far outstrips supply

Occupational demand has been outstripping supply for over three years. Whilst developers have responded to the supply shortage with an increasing number of speculative developments, this response has to date been targeted and measured. The completion of speculative developments has made a difference to the overall availability rate, but it is still falling, and we have seen several of the speculative developments completed this year let during construction or soon after completion.

This has intensified the environment of upward pressure on logistics property rents. Demand by tenants for better terms have largely been met with a firm response from landlords and, it is still a very competitive marketplace for good quality logistics facilities. With 'only' 1.5 million sq ft of speculative space commencing construction in Q4, the pipeline of speculative supply looks restricted and will maintain upward pressure on rents through 2017.

Increasing land prices have brought about some imaginative proposals to more efficiently use the space on offer. We have seen multi-storey sheds get underway but have also seen plans for sub-terranean and even floating warehouses to more efficiently use space. Whilst these ideas are conceptual, they are illustrative of the lengths to which the market is going to try to adapt.

Indexed supply and demand

Sources: Gerald Eve, Property Data



Core markets drive 2016 investment volumes

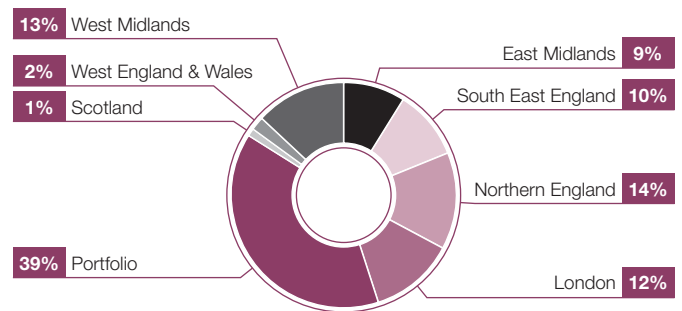
Funds with exposure to speculative developments have continued to closely gauge occupier interest in their current schemes before commencing anything further. This has slowed down the rate of speculative development, although the speed with which we have seen several speculative schemes let of late has softened some funds' stance on this at the start of 2017.

This slowdown in speculative funding will help to keep the market fundamentals attractive. We are unlikely to see the same number of speculative developments in the first half of 2017 as we saw in the second half of 2016. We are likely to see the era of restricted supply continue through 2017.

There has also been a sustained high level of interest from overseas purchasers, keen to make the most of the devalued sterling, particularly Far Eastern and Middle Eastern investors in Q4.

2016 investment volumes by region

Sources: Gerald Eve, Property Data



Investment market ends 2016 on a high

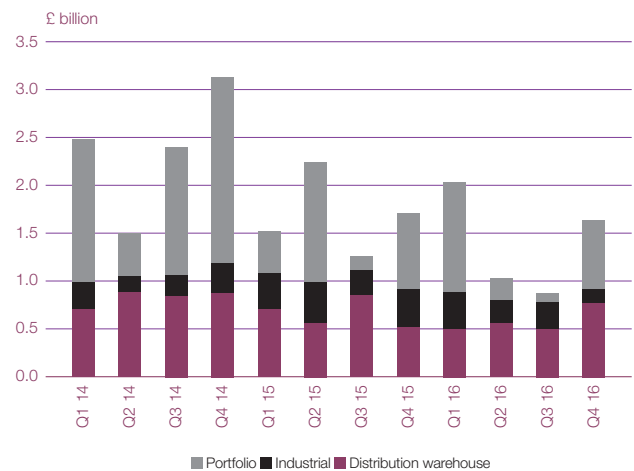
The small level of yield softening caused by the uncertainty during the immediate aftermath of the EU referendum result was reversed during Q4. There continues to be a significant weight of foreign and domestic money targeting prime logistics assets and pricing remains very keen.

Investors are buoyed by the compelling occupational fundamentals underpinning the sector, namely strong tenant demand, the lack of new / modern supply, a limited development pipeline and the resulting rental growth prospects. These attractive fundamentals, combined with a lack of prime investment stock and the appeal of logistics from an income return perspective have helped to maintain pre-referendum pricing on good quality, well-let opportunities.

With inflation forecast to rise (current Bank of England forecasts are for a rise of 1% in 2016 to 2.7% in 2017), annuity-style investing, particularly those properties which can provide long term income are top of investors' agendas. We could see an increased desire for RPI-linked rent reviews in leases to meet this demand for inflation-linked income.

Industrial investment volumes by asset type

Sources: Gerald Eve, Property Data



Gerald Eve in the Market

Gerald Eve is well-established in the logistics property market and covers the full range of property services, from national occupational and investment agency through to lease consultancy and valuation. Our specialists have been involved in several high profile transactions during the quarter. Please contact them directly for more information.



Richard Ludlow

advised Roxhill/SEGRO on the letting of a 290,000 sq ft speculatively developed warehouse at Rugby Gateway to Amazon, taking the park to full occupancy.

Mobile +44 (0)7836 766 167



Nick Ogden

advised Schroder UK Real Estate Fund on the sale of Phases IV and V of Albany Park Industrial Estate in Frimley to Surrey Heath Borough Council for £15.25 million.

Mobile +44 (0)7825 106 681



Ian Gascoigne

is an industrial and logistics L&T specialist with over 17 years' experience in the Midlands logistics market and joins the Birmingham office to lead the L&T team.

Mobile +44 (0)7557 849 419

Industrial & Logistics Contacts

Agency

Midlands

Richard Ludlow
Tel. +44 (0)121 616 4802
rludlow@geraldeve.com

Myles Wilcox-Smith
Tel. +44 (0)121 616 4811
mwilcox-smith@geraldeve.com

London

Mark Trowell
Tel. +44 (0)20 7333 6323
mtrowell@geraldeve.com

David Moule
Tel. +44 (0)20 7333 6231
dmoule@geraldeve.com

North West

Jason Print
Tel. +44 (0)161 830 7095
jprint@geraldeve.com

South West & Wales

Richard Gatehouse
Tel. +44 (0)29 2038 1863
rgatehouse@geraldeve.com

Scotland

Sven Macaulay
Tel. +44 (0)141 227 2364
smacaulay@geraldeve.com

Investment

John Rodgers
Tel. +44 (0)20 3486 3467
jrogers@geraldeve.com

Nick Ogden
Tel. +44 (0)20
nogden@geraldeve.com

Lease consultancy

John Upton-Prowse
Tel. +44 (0)20 7333 6248
jupton-prowse@geraldeve.com

Ian Gascoigne
Tel. +44 (0)121 616 4812
igascoigne@geraldeve.com

Chris Long
Tel. +44 (0)20 7333 6444
clong@geraldeve.com

Rating

Keith Norman
Tel. +44 (0)20 7333 6346
knorman@geraldeve.com

Valuation

Richard Glenwright
Tel. +44 (0)20 7333 6342
rglenwright@geraldeve.com

Research

Steve Sharman
Tel. +44 (0)20 7333 6271
ssharman@geraldeve.com

Offices

London (West End)

72 Welbeck Street
London W1G 0AY
Tel. +44 (0)20 7493 3338

London (City)

46 Bow Lane
London EC4M 9DL
Tel. +44 (0)20 7489 8900

Birmingham

Bank House,
8 Cherry Street
Birmingham B2 5AL
Tel. +44 (0)121 616 4800

Cardiff

32 Windsor Place
Cardiff CF10 3BZ
Tel. +44 (0)29 2038 8044

Glasgow

140 West George Street
Glasgow G2 2HG
Tel. +44 (0)141 221 6397

Leeds

1 York Place
Leeds LS1 2DR
Tel. +44 (0)113 244 0708

Manchester

No1 Marsden Street
Manchester M2 1HW
Tel. +44 (0)161 830 7070

Milton Keynes

Avebury House
201-249 Avebury Boulevard
Milton Keynes MK9 1AU
Tel. +44 (0)1908 685950

West Malling

35 Kings Hill Avenue
West Malling
Kent ME19 4DN
Tel. +44 (0)1732 229423

United States and European Alliances Gerald Eve has an international alliance with Lee & Associates who have offices in 56 US and Canadian cities and a number of Europe alliance partners in 20 cities across 12 European countries.

Prime Logistics is the definitive guide to the UK's distribution property market. Dealing with logistics units of 50,000 sq ft and above, this research report gives detailed analysis and statistics for 26 key distribution areas – from take-up, stock and development statistics to drivers of occupier demand, growth forecasts and regional outlooks. All previous editions can be downloaded from our website.

Prime Logistics is a short summary and is not intended to be definitive advice. No responsibility can be accepted for loss or damage caused by any reliance on it.

The reproduction of the whole or part of this publication is strictly prohibited without permission from Gerald Eve LLP.

© Gerald Eve LLP 2017. All rights reserved.