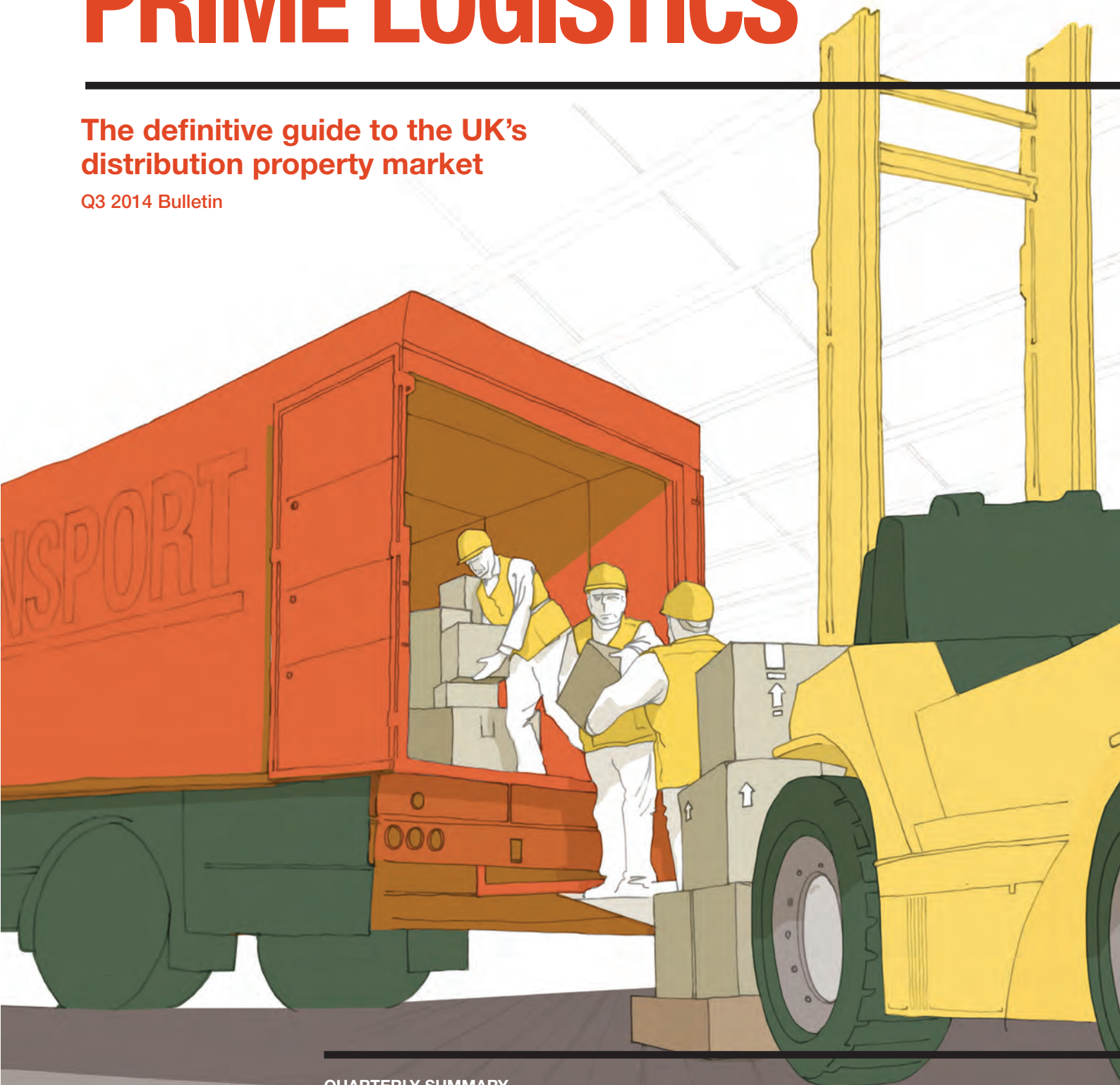


# PRIME LOGISTICS

The definitive guide to the UK's  
distribution property market

Q3 2014 Bulletin

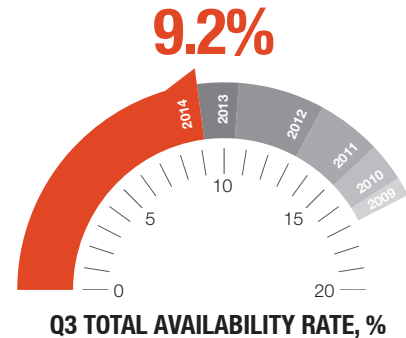
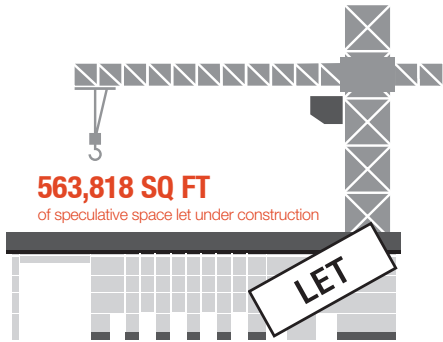


## QUARTERLY SUMMARY

- Q3 take-up rises 21% to 10.4 million sq ft
- Internet retailers commit to 2.1 million sq ft of space
- Letting success on several speculative buildings under construction
- Investment volumes driven by large lot sizes
- New benchmark yields achieved



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**Q3 2014 – A QUARTERLY REVIEW**

**LETTINGS ON SPECULATIVE SCHEMES**

Occupational take-up totalled 10.4 million sq ft in Q3, 20% up on the quarter and 17% above the five year quarterly average. Regionally, occupier activity increased across most of the country, with a noticeable rise in the amount of space taken in our London and Southern West Midlands regions.

Several schemes being developed speculatively were let during construction in Q3. These included **Jaguar Land Rover** taking 225,378 sq ft at Prologis Park Ryton and **Ocado** and **Mash Purveyors** both taking space at **SEGRO**'s Origin scheme in Park Royal. **UPS** also signed up to the 152,500 sq ft unit at the successful Birch Coppice Business Park in Tamworth.

Such a degree of occupier commitment during the construction process vindicates decisions to speculatively develop and is expected to accelerate further speculative development.

**INTERNET RETAIL REPLACES FOOD RETAIL**

By occupier sector, a key driver of take-up during Q3 was the retail and wholesale sector, which accounted for 43% of take-up. This in turn was driven in large part by occupational activity of dedicated internet retailers, who committed to over 2 million sq ft of space. Indeed, the largest deal of the quarter was in Daventry as **Norbert Dentressangle** (servicing a contract for **Amazon.co.uk**) acquired 593,889 sq ft at Unit A Royal Oak Distribution Centre (known as the 'Bigfoot' building). **Wiggle** also let the 322,994 sq ft Citadel Logistics Centre in Wolverhampton during Q3.

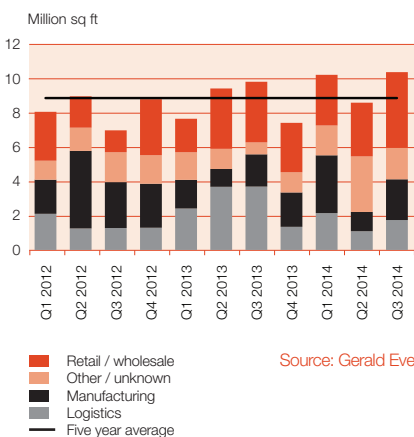
Food retailers however have not been acquisitive during Q3. Discounters such as **Aldi** and **Lidl** and premium retailers such as **Waitrose** are posting strong profits and committing to large warehouses. Food retailers in between are seeing their margins squeezed, which in turn is creating uncertainty in terms of operational requirements for distribution space.

**SUPPLY FALLS AGAIN**

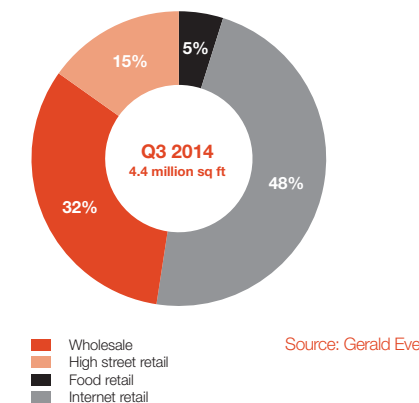
On top of a handful of speculatively-developed and refurbished buildings which entered our availability statistics during Q3, there were also several secondhand buildings (a large proportion of which were between 50-150,000 sq ft) which were returned to the market. However, this was not sufficient to offset the strong levels of take-up and the almost 10 million sq ft of space put under offer. Consequently our availability rates are now the lowest on record, with 9.2% for all building qualities and under 3% for new or refurbished buildings.

To put this in context, using five year average take-up by building quality, this means that there is only around 18 months of total supply currently in the market to satisfy demand. For new or refurbished supply, this figure drops to a worrying nine months of supply. Such a shortage will continue to channel demand into speculative space and force more occupiers to pre-let design-and-build facilities.

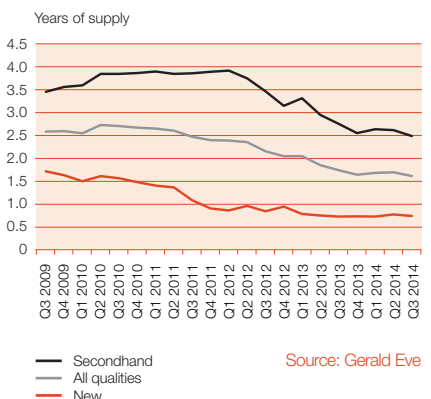
**Quarterly take-up by occupier sector**



**Breakdown of retail sector take-up**



**Years of supply, by quality**





Key logistics investment transactions Q3 2014

Property	Purchaser	Vendor	Price (£m)	Size (sq ft)	Yield (%)	Tenant
LPP Portfolio	SEGRO	Moorfield REF II LP	95.6	4,057,994 (12 units)	-	Various
Waltham Point, Essex	Prologis	Deka Immobilien	110.0	704,780	4.67	Sainsbury's
Logistics Portfolio (Hams Hall, Leicester and Norfolk)	SEGRO	Harbert European RE Fund	49.5	571,564 (4 units)	6.3	Various
Magna Park, Lutterworth	SWIP Property Trust	Saffery Champness	45.4	431,988	5.1	BT
Innova Park, Enfield	Prologis	Kuwait Finance House	44.0	245,557	5.05	Iceland
Derbyshire Portfolio	Standard Life PIT	GE Capital Real Estate	28.7	479,984 (3 units)	7.0	Various
One Park Royal	M&G Real Estate	Standard Life	22.6	106,907	5.25	Enotria Wine Cellars
Express Business Park, Rushden	Picton Property Income	AXA REIM	20.0	311,992	7.7	Belkin
Unilever, West Thurrock	CBRE UK Property Fund	Goodman	18.2	192,233	6.8	Unilever

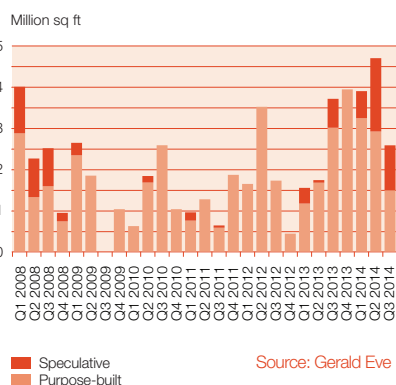
Source: Gerald Eve, Property Data

43% OF DEVELOPMENT STARTS SPECULATIVE

Whilst supply is critically low, the development market is doing its best to recalibrate the supply/demand imbalance. Eight new speculative buildings totalling over 1 million sq ft got underway during Q3, which represented 43% of all development starts. **Canmoor** accounted for half of these schemes with its activity at Heywood and Trafford Park, but a range of developers started speculative construction during Q3, including **Barwood**, **Goodman** and **SEGRO**. Overall however, the amount of space which started construction dropped 45% on the quarter to just over 2.5 million sq ft.

However, the amount of space which completed development grew by 28%, driven in large part by completions in Merseyside & Cheshire. **Travis Perkins** completed their 700,451 sq ft warehouse at Omega in Warrington and **TJ Morris** their 280,712 sq ft warehouse on G Park in Liverpool.

Quarterly development starts by type

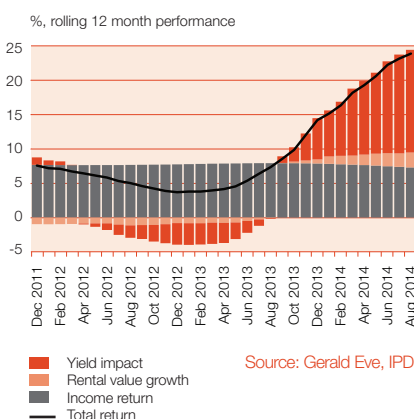


FURTHER YIELD COMPRESSION

Almost three-quarters of a billion pounds of warehouse property was transacted during Q3. Large lot size activity helped drive this figure, principally **SEGRO's** purchase of the other 50% interest in their LPP JV with Moorfield for £95.6m and **Prologis'** acquisition of Sainsbury's 704,780 sq ft RDC at Waltham Abbey for £110m. At 4.67%, the yield on the Sainsbury's deal represented one of the lowest for the current cycle and the lowest on record for sub-20 year income. This demonstrates the significant weight of money targeting prime opportunities.

Looking forward, with rising build costs and an expectation of further yield compression, there is an increasing emphasis on rental growth assumptions to make development and investment appraisals stack up. We are forecasting annualised growth to average 2.5% across the market during 2015 and 2016, albeit with potential for the best in class locations (and where the supply and demand imbalance is most severe) to outperform this.

Industrial rolling annual total returns and components



OUTLOOK

There is around 10 million sq ft of industrial space currently under offer throughout the UK and agents and developers are reporting strong levels of occupier interest on both design-and-build schemes and speculative space under construction. Combined with the strong level of requirements in the market, this suggests another robust quarter of take up for Q4 2014 and an annual take-up figure for 2014 which could be around 5% up on 2013.

We expect elevated levels of capital to continue to be allocated to the sector as investors are attracted to the strong fundamentals in the occupier and development markets. The supply and demand imbalance for prime opportunities will inevitably lead to further pricing benchmarks being set across all prime income streams before year end. Likewise, we expect further yield compression on secondary and tertiary stock as other investors divert their attention from prime product in search of better returns.

We have seen several parcel companies take smaller, secondhand space in Q3 in preparation for the Christmas period. We expect this kind of demand to continue in the short to medium term and that requirements for units between 50 and 150,000 sq ft in size close to urban conurbations will increase. A corollary of increased demand from internet retailers is the process of physically delivering goods to the consumer and accommodating for returns. We expect this to feed into increased demand from the home delivery market, but also from retailers championing the 'click-and-collect' service.

## 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 Prologis on the letting of the 225,000 sq ft speculatively-built DC3 building at Prologis Park Ryton, and, L&G on the 120,000 sq ft letting of Centurion 120 in Tamworth to Aldi.

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### Myles Wilcox-Smith

advised Wiggle, the online cycle shop, on the acquisition of the 322,954 sq ft Citadel Logistics Centre in Wolverhampton, and, Amtek on the acquisition of 130,000 sq ft in Kidderminster.

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### David Moule

advised Yodel on the freehold acquisition of a 50,000 sq ft warehouse on Southwood Business Park in Farnborough and is currently marketing New Aquitaine House, a 91,000 sq ft HQ/Warehouse in Theale.

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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.

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