

PRIME LOGISTICS

The definitive guide to the UK's
distribution property market

Q2 2016 Bulletin



QUARTERLY SUMMARY

- Q2 take-up increases 4% to 10 million sq ft
- Internet retailers and discount retailers continue to commit to space
- Post-referendum uncertainty weighs heavily on market...
- ...but 10 year comparison highlights sound market fundamentals
- Development starts up 63% on the quarter
- Availability falls to lowest level on record
- Several funds suspend trading following increases in redemptions



GERALDEVE

Q2 2016 KEY LEASING TRANSACTIONS

Property	Location	Size (sq ft)	Tenant	Deal type
Central Park	Avonmouth	600,000	Lidl	Development sale
London Distribution Park	Tilbury	550,000 (2.2m inc mezz)	Amazon	Pre-let
CrossFlow 380	Crewe	386,747	AO.com	Letting
DC7, Prologis Park	Ryton	327,730	Jaguar Land Rover	Speculative letting
Celestia	Milton Keynes	318,000	DS Smith	Letting
Magna Park	Lutterworth	260,000	Wayfair	Letting
High Roller	Gloucester	258,864	DHL (Trade Team)	Letting
Royle Barn Road	Rochdale	240,000	Tetrosyl	Sale
Central M40	Banbury	237,000	Hello Fresh	Letting

ABOVE AVERAGE DEMAND

10 million sq ft of space was taken-up by occupiers in Q2. This marked a 4% increase on the 9.6 million sq ft transacted in Q1 and is also up on the 9.8 million sq ft 5 year quarterly average.

Internet retailers were again crucial to demand in Q2 as Amazon, AO.com and Wayfair all committed to large logistics facilities. During 2016, dedicated internet retailers, not including 3PLs or parcel carriers have accounted for 16% of all activity, highlighting the structural shift we have seen in the market over a period of just ten years when large supermarkets dominated take-up.

We have not yet seen the effect of the referendum result on the UK domestic consumer economy. Given that internet retailers' business models largely revolve around serving the domestic UK consumer, much depends on the domestic economic environment and the outlook for consumer spending. The logistics market is however afforded some protection from the fact that UK consumers are unlikely to stop purchasing goods online.

The occupier market is likely to adopt a wait-and-see approach to the referendum result. We may see a pause in activity over the (usually quieter) summer period as some occupiers revisit terms of deals and the market recalibrates. We may also see occupiers try to leverage more flexibility on the terms of deals, however, the continuing lack of alternative options will ultimately keep occupiers engaged and it is only those in a position to wait for space that may adopt these tactics.

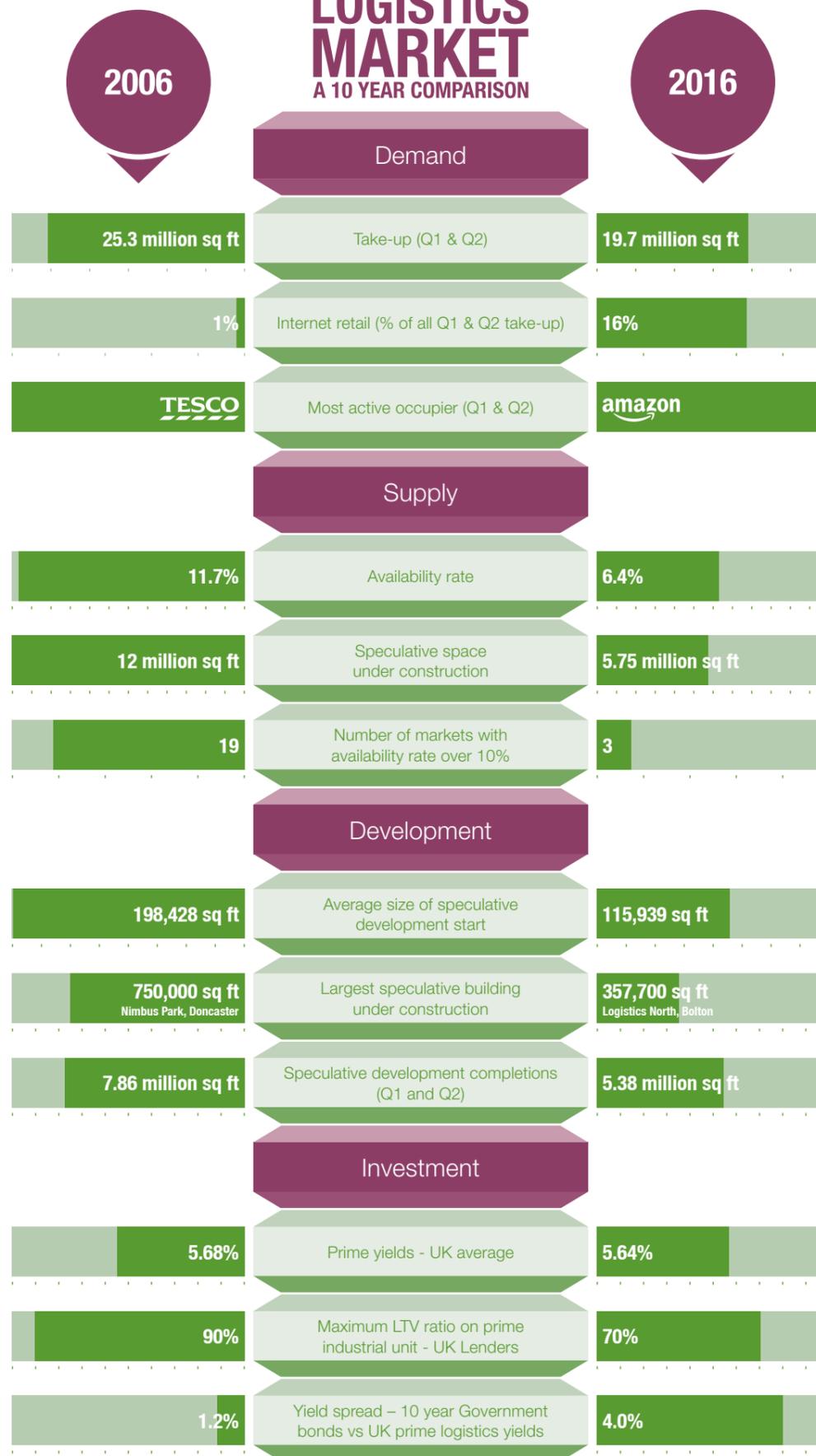
SUPPLY AT RECORD LOW

Even including the space that is under construction speculatively, availability in Q2 fell to the lowest level we have recorded, with a rate for all qualities of buildings of 6.4%. This is almost half the rate recorded in 2006. This is perhaps the most significant difference compared to market conditions 10 years ago and one which will offer the most protection in the current environment.

There is also less than half the amount of space under construction speculatively now compared to July 2006. And this is in a market where all regions have a lower availability rate. The judicious approach of developers over the last few years, focusing on core markets and appropriately-sized buildings has kept a sustainable balance to the market which is offering significant protection to rent levels. Despite the increase in speculative development we have seen this year, the UK is still undersupplied when considering 5 year average levels of demand. This, in conjunction with the structural shift in occupier demand to online retail, means logistics is one of the least exposed sectors in the wake of the referendum result.

On the back of deals agreed during Q2, we have recorded small increases in prime rents, particularly in London and the South East. Pre-referendum, we envisaged that the rate of prime rental growth would slow but remain positive this year. Post-referendum, if there is a pause in occupier demand, the short term outlook for rents will be affected, but the lack of supply will continue to offer some protection.

LOGISTICS MARKET
A 10 YEAR COMPARISON



Sources: Gerald Eve, De Montford Lending Survey 2016, Experian Economics

Q2 2016 INVESTMENT TRANSACTIONS

Property	Purchaser	Vendor	Price (£)	Size (sq ft)	Yield (%)	Tenant
Mountpark Bardon	Private Korean investor	Mountpark Logistics	126.0	1,052,968	4.50	Amazon
Newink Business Park	Tritax Big Box REIT Plc	DVS	77.3	725,777	5.86	DSG Retail
Apex Park, Daventry	Knight Frank IM LLP	Prologis	36.7	402,139	5.65	Arcese, Ingram Micro, CNH
Airport City, Manchester	Hansalvest GmbH	Mountpark Logistics	34.8	277,084	4.44	Amazon
Capacity Dartford	Standard Life	Exton Estates	33.9	132,762	4.48	TNT
Airport City, Manchester	Harmsworth Pooled PUT	MAG Developments	7.7	37,415	4.60	DHL
McNicol Drive, Park Royal	London Diocesan Fund	Undisclosed	5.5	23,487	4.43	Charlie Bigham

STRONG FUNDAMENTALS

As the graphic shows, the occupier base and the market fundamentals have changed substantially over the course of the last 10 years. Even at this relatively mature point in the cycle, the availability rate is roughly half what it was 10 years ago and demand is just shy of the levels being achieved then too.

The shift from major supermarkets being the most active occupiers to internet retailers demonstrates how this market shift is affecting demand. Such a 10 year comparison also highlights how developers have been more judicious in the developments they have started – with the average size of speculative development start considerably lower in the current cycle.

The investment market too is in a much different environment. Loan-to-value ratios are much lower now and debt has to date not played as large a part in the prime logistics market. And, despite yields having shifted in to roughly the same levels as in 2006 during recent months, the yield spread compared to 10 year bonds is much wider now than 10 years ago.

These observations are all illustrative of the relative stability of the market and the strength of the fundamentals. However, the referendum has affected the short term outlook for all UK commercial property, including the logistics market. Pricing adjustments are likely, although the extent of these adjustments post-referendum will be more evident next quarter.

FUNDS SUSPEND TRADING

There were deals agreed in April and May at levels which could have supported further inward yield movement in certain markets. For instance, there were new benchmarks set on non-annuity income – mostly from overseas investors looking to increase their UK exposure – on Amazon buildings in Manchester and Bardon. However, since the referendum result, we have not seen enough evidence of the levels achieved to draw firm conclusions.

We have seen several funds and institutions suspend trading following a surge in redemptions, which in turn could increase the amount of prime investment stock on the market. This stock is likely to be high quality, well-let prime buildings and will be of significant interest to opportunistic investors, particularly overseas investors given the fall in sterling.

In the short term, the current market uncertainty could negatively impact funds' appetite for speculative development finance. This in turn could maintain upward pressure on rents. The supply situation as it is, without the aid of further speculative development, is insufficient to match demand levels, even if we see a reduction in occupier demand. The market fundamentals as they are could help protect from any sharp movements in rents and UK logistics property is seemingly one of the best placed sectors to withstand the short term economic instability as a result of the referendum outcome.

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 to Jaguar Land Rover of DC1 (141,000 sq ft) and DC7 (328,000 sq ft) at Prologis Park Ryton, both of which are due for practical completion in July.

Mobile +44 (0)7836 766167



Joshua Pater

joined Gerald Eve in June. Josh has over 12 years' experience of the London and South East logistics market and joins us as a Senior Associate in our industrial agency department.

Mobile +44 (0)7782 271355

Gerald Eve Logistics Team

has been shortlisted in the 'Industrial Adviser of the Year' category of the Estates Gazette awards. This follows on from being highly commended at the Property Week awards in the Investment Agency Team of the Year category.



Follow us on Twitter @GeraldEveLLP

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

South West & Wales

Richard Gatehouse

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

North West

Jason Print

Tel. +44 (0)161 830 7095
jprint@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

Scotland

Sven Macaulay

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

Investment

George Underwood

Tel. +44 (0)20 7333 6396
gunderwood@geraldeve.com

Lease consultancy

John Upton-Prowse

Tel. +44 (0)20 7333 6248
jupton-prowse@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

Sally Bruer

Tel. +44 (0)20 7333 6288
sbruer@geraldeve.com

GERALD EVE'S UK OFFICE NETWORK

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 CF103BZ
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

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 2016. All rights reserved.



GERALDEVE