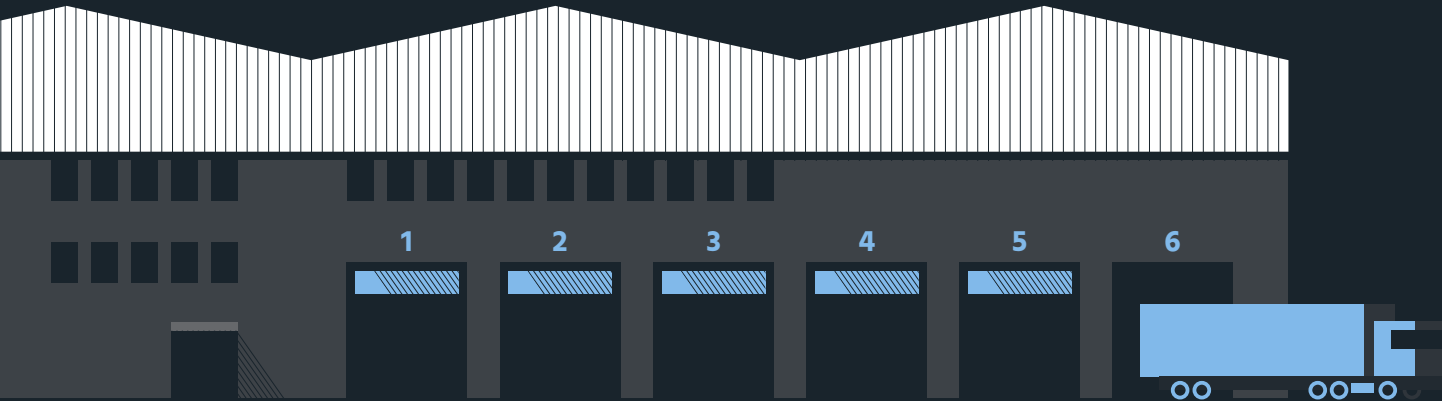


# PRIME LOGISTICS

The definitive guide to the  
UK's distribution property market

Q2 2019 Bulletin





(23% UP ON Q1)



(TOTALING 1.9 M SQ FT)



(HIGHEST SINCE Q3 2016)



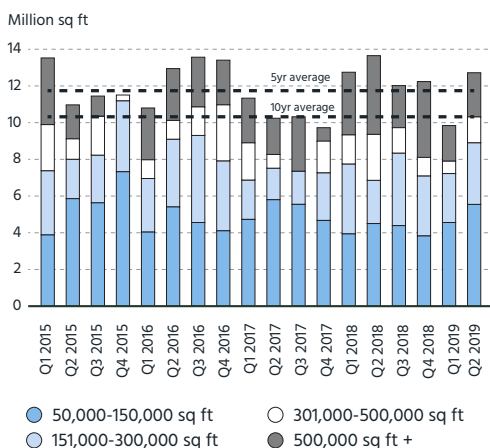
(34% DOWN ON Q1)



(37% SPECULATIVE)

### Quarterly take-up, by building size, Q1 2015-Q2 2019, with long term averages

Source: Gerald Eve



### BOUNCE BACK IN OCCUPIER DEMAND IN Q2

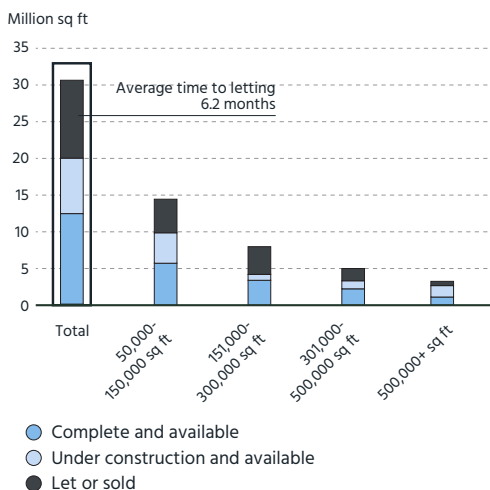
Following a subdued Q1, which was the weakest quarter since Q4 2017, occupier demand totalled 12.7 million sq ft in Q2, marking a 23% quarterly increase. This is the strongest level since Q2 2018 and is above both the 5 and 10-year quarterly averages. Whilst it has been an erratic first half of 2019, the elevated levels of take-up in Q2 highlight the continued appetite for logistics space in the UK.

Also encouraging was the large number of individual deals agreed in Q2. We recorded 88 individual transactions, a 21% increase on Q1 and the most quarterly deals concluded in one quarter since Q2 2016. Of note, in Q2 we also saw a considerable increase in the take-up of smaller units (sub-150,000 sq ft) compared to previous quarters, which were crucial to the increased levels of demand.

While the largest deal this quarter was a secondhand deal – the sale and leaseback of Sports Direct’s 1.8 million sq ft campus in Shirebrook near Mansfield, more broadly, we have seen an increase in the quality of space taken-up. Of particular note, occupiers continued to commit to speculative units and we recorded 15 such units let in Q2, totalling 1.9 million sq ft.

### Total volume of speculative development starting construction since Q1 2016

Source: Gerald Eve



### MID-SIZED SPECULATIVE DEVELOPMENTS RECORD HIGHEST LETTING RATE

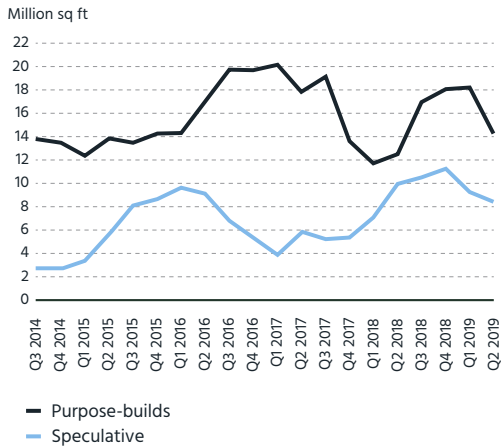
Since the start of 2016, we have recorded 30.6 million sq ft of speculative space starting construction. Through tracking the status of these buildings from the start of development, we have noted that 35% of this space has been let, 25% is currently under construction and the remainder was being marketed as available at the end of Q2.

Breaking this down further into various unit sizes shows that units between 151,000-300,000 sq ft have seen the highest proportion of space let following development completion, with 47% of all space starting since the start of 2016, within this size bracket, now occupied. Of note this size bracket also has the lowest volume of space currently under construction. Proportionately, the largest buildings also have the most space under construction.

Whilst we have seen some speculative developments let to an occupier during the construction phase, some void period post-development completion is expected on these schemes. Of the space that has let or sold, the average time to letting from practical completion has been 6.2 months. We have noted considerable differences by building size bracket – units between 301-500,000 sq ft recorded on average just 2.2 months to letting from practical completion of the development, whilst 50,000-150,000 sq ft recorded 6.1 months.

### Prevailing space under construction at the end of the quarter, by building type, Q3 2014-Q2 2019

Source: Gerald Eve



### PREVAILING SPACE UNDER CONSTRUCTION HAS FALLEN IN 2019

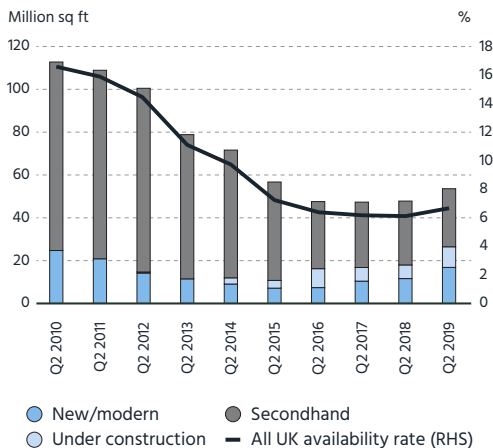
Total development starts in Q2 (including both purpose-builds and speculative) fell by 36% on Q1. Although 19 speculative buildings started development in Q2, totalling 2.5 million sq ft, this was also down by 34% on Q1. The speculative buildings which did start in Q2 had a geographic focus on core markets in north and east London and the West Midlands.

Quarterly observations of development activity help to assess developer confidence, however it is also useful to monitor the total volume of space which is under construction at any given point in time to contextualise quarterly activity. The prevailing volume of speculative space under construction at the end of Q2 was over 8 million sq ft, and this figure too has been falling since the peak at the start of the year.

The total volume of space currently under construction is 22.7 million sq ft, made up of 37% speculative and 63% purpose-built floorspace. This is the lowest volume of prevailing space under construction since Q2 2018, and is perhaps illustrative of Brexit-related caution and the continuing shortage of land in key markets.

### Annual availability by building quality and UK availability rate, Q2 2010-Q2 2019

Source: Gerald Eve



### AVAILABILITY RATE AT 3-YEAR HIGH

The overall UK availability rate increased in Q2 and is now at the highest level since Q3 2016. The actual volume on the market rose to over 53 million sq ft in Q2, the largest volume recorded since Q1 2015. This increase was primarily driven by the addition of speculatively developed space (including space under construction) but we also recorded a small increase in secondhand space on the market in Q2.

On balance, these increases have meant that the quality of occupier choice has continued to improve, and there is now an almost 50:50 split between new/refurbished and secondhand space on the market. Overall availability rates are low, but increasing, with the largest quarterly increase recorded for new/refurbished space, which increased from 3.4% to 3.9% in Q2.

We expect availability to remain low during 2019, but given the volume of prevailing speculative space under construction, together with what is likely to be a testing environment for occupiers, availability is likely to incrementally increase in H2 2019.

### FALL IN DEMAND FOR MID-LENGTH INCOME

Capital allocation has been polarised in Q2, with significant difference in the levels of investor interest depending on the risk profile of an opportunity. At the one end of the (low risk) spectrum, there is a deep pool of buyers for prime, well-let properties offering long income. This market remains liquid and of interest to investors, albeit with slightly less depth to the market than was the case 12 months ago. It is a similar story at the other end of the risk spectrum. Shorter leases and more secondary buildings which have asset management potential are similarly liquid and these higher risk strategies continue to be of interest to a range of investors. For both extremes, investor interest has been from both domestic and overseas investors.

The type of asset that has struggled in Q2 however, has been the core-plus investments, which on the face of it, do not model well on a 5-year investment horizon. A typical opportunity with 5-10 years rack-rented income, falls in the middle of both buyer pools: not long enough income to offer security through the Brexit process, yet not short enough income to allow for some short-term asset management. We expect this polarisation to continue into 2020 until there is some clarity on the medium term outlook for the UK economy.

## 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.



### Jon Ryan-Gill

is marketing a 521,520 sq ft unit called EMDC 525 in Castle Donnington, which is currently being speculatively developed and is due to complete at the end of 2019.

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### Jason Print

advised Stoford and Oxenwood on the freehold sale of a 126,000 sq ft building at Stone Cross Park to local occupier Alpha UK Ltd.

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### David Moule

is advising Prologis on the marketing of Brooklands DC1, a 124,401 sq ft facility in Weybridge, due for completion in Q3 2020.

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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.

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