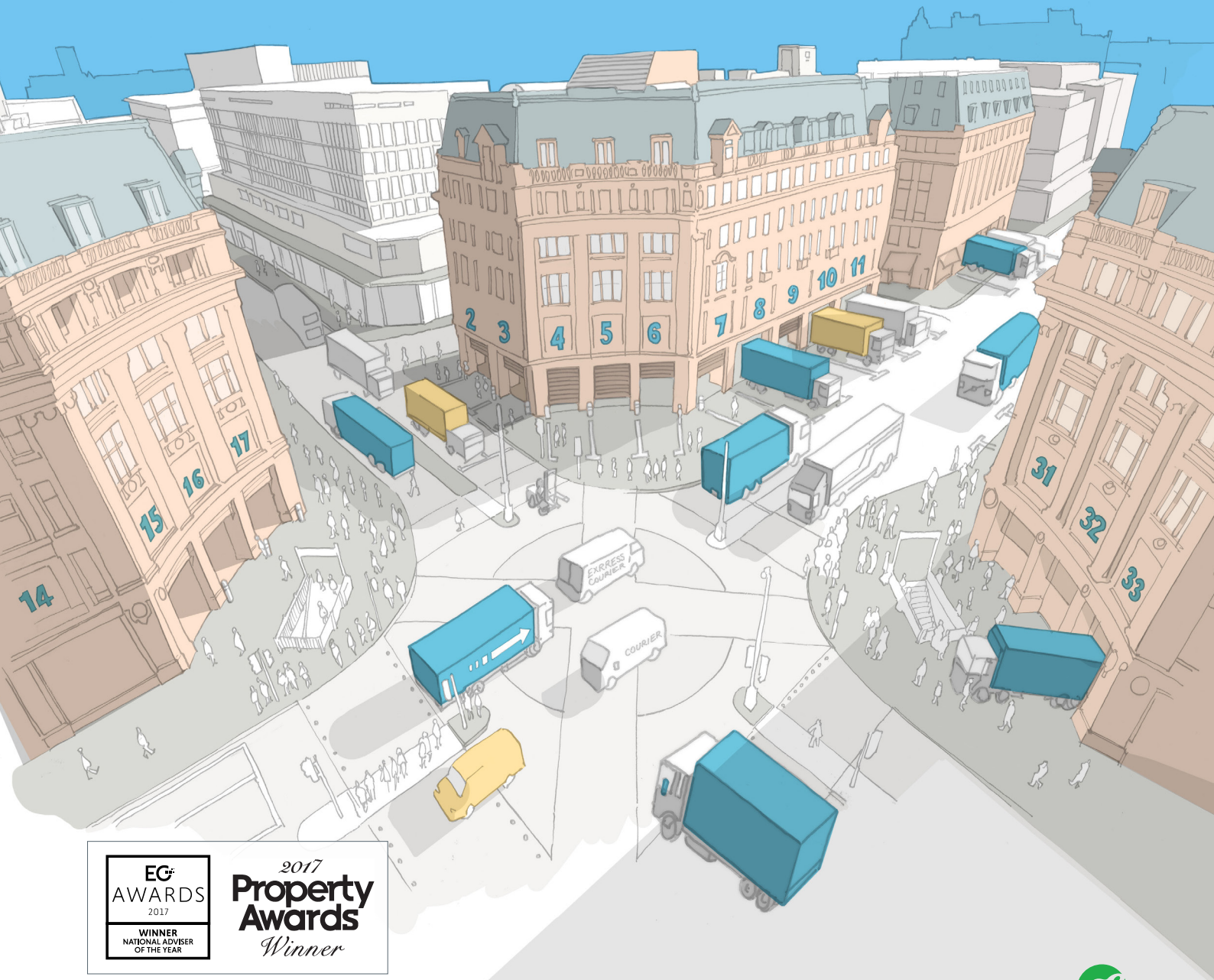
PRIME LOGISTICS

The definitive guide to the UK's distribution property market
Q3 2018 Bulletin



EG AWARDS 2017 WINNER NATIONAL ADVISER OF THE YEAR

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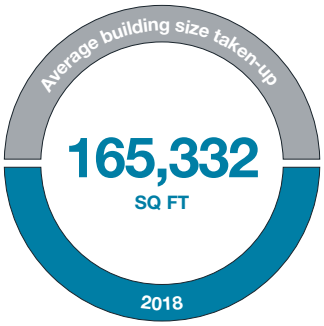


OCCUPIER MARKET MOMENTUM CONTINUES

Despite it being the usually-quieter summer period, the momentum from the first half of 2018 continued, and we recorded 11.3 million sq ft of take-up in Q3 2018. While this is 16% down on Q2, this is more a reflection of the strength of the occupier market in the first half of 2018, than any slowdown in demand. Q3 take-up was in line with the 5 year quarterly average and represents an 8% increase on same quarter last year.

Activity in the Northern East Midlands, where 2.3 million sq ft of take-up was recorded (accounting for 20% of all quarterly occupier activity) helped drive this volume. This was in part driven by Wayfair's 1 million sq ft pre-let at Magna Park in Lutterworth, but several other mid-sized deals were also agreed in the region.

From a sector perspective, UK-wide activity so far this year has been in stark contrast to 2017. As opposed to manufacturers, we have continued to see elevated levels of take-up from retailers and wholesalers throughout 2018, following a number of large scale pre-lets and occupier land purchases.

2018 TAKE-UP VOLUMES SET TO SURPASS 2017

Since the start of the year, we have recorded 37.5 million sq ft of occupational take-up, which is an 18% increase on the same period last year. The level of take-up recorded so far in 2018 is now at 90% of the total take-up recorded for 2017, and, given the elevated levels of requirements and volume of space under offer, we are confident that take-up will surpass the volume recorded last year.

So far in 2018, the average size of building taken-up was 165,332 sq ft, the largest average since 2010. We have seen several large scale pre-lets and occupier land purchases agreed this year by the likes of Amazon, B&M Bargains and Lidl which has significantly driven up the average size of building taken.

During Q3, a number of the larger deals were agreed in Merseyside & Cheshire. Amazon, Royal Mail, Eddie Stobart and Movianto all committed to large facilities in the region. The region has above average availability rates and is less land constrained than other locations, so has proved an attractive option to several occupiers with large requirements.

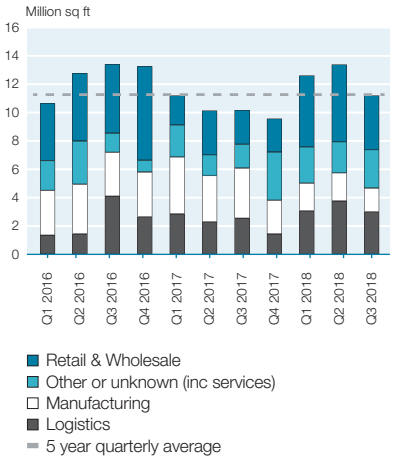
SUPPLY REMAINS LOW, BUT QUALITY IMPROVES

The overall supply of logistics space remains low and the availability rate at the end of Q3 was 6.0%. Almost half of the Gerald Eve regions have shown a decrease in availability in Q3, with Gloucestershire & Worcestershire, Kent, London South and Suffolk and Essex recording some of the lowest rates in the country.

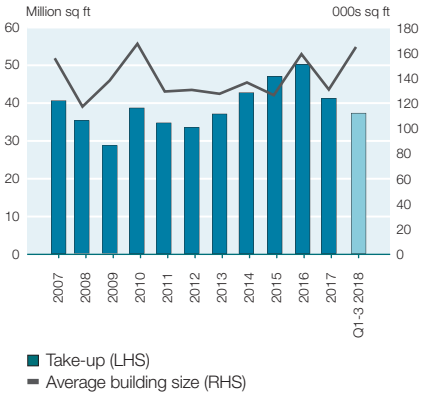
While the overall UK availability rate has been at around 6% for several quarters, the quality of the available stock has improved, with 43% of available stock now comprised of new or modern space. The amount of secondhand space being marketed fell for the third consecutive quarter, as the natural churn of space, including that released back to the market through retailer administrations, has been absorbed through letting activity.

Developers continue to respond to the low levels of supply and the overall level of speculative development has increased this year. We recorded over 2.5 million sq ft of development starting speculatively during Q3. Such high levels of activity has meant that, when allied to refurbished stock, the overall quality of the space on the market in the UK is increasing.

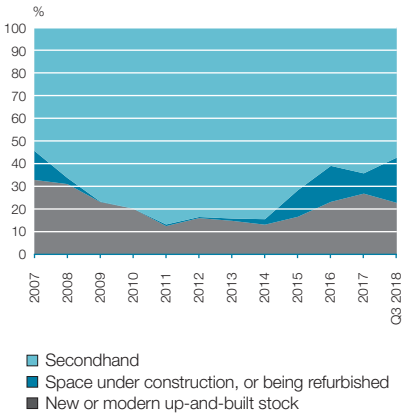
Quarterly take-up by main occupier sector and 5 year average, Q1 2016 – Q3 2018
Source: Gerald Eve



Annual take-up and average building size taken, 2007 – Q3 2018
Source: Gerald Eve



Availability by quality of space, 2007 – Q3 2018
Source: Gerald Eve



Q3 2018 Key investment transactions

Property	Purchaser	Vendor	Price (£m)	Yield (%)
UK Logistics Portfolio	Ascendas REIT	Griffen UK Logistics Fund	257.5	5.39
Project Owl portfolio	Ascendas REIT	Oxenwood Real Estate	207.3	5.22
Midlands Logistics Park, Corby	Tritax Big Box REIT	Frogmore Property Company	89.3	5.2
Ansty Park, Coventry	Lime Property Fund	Manse	73.4	
Florida Farm, Haydock	Tritax Big Box REIT	Bericote Properties	68.7	4.9
M Portfolio	Blackstone Real Estate	Commercial Estates Group	61.5	6.3
Lingfield Point, Darlington	Frogmore RE Partners	Clearbell Capital	44.0	
Connex Park, Harlow	TPG Real Estate	Mulberry Developments	35.0	
The Hub, Witton	NFU Mutual Insurance	IM Properties	33.9	4.63
Aviation Road, Sherburn-in-Elmet	Sedco Capital	NFU Mutual Insurance	31.8	

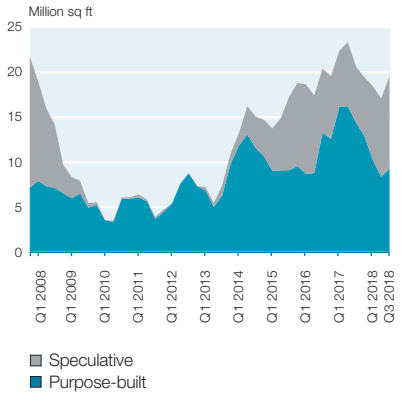
HIGH LEVELS OF DEVELOPMENT ACTIVITY

Development starts totalled 7.7 million sq ft during Q3. This was driven by occupiers, as 67% was purpose-built developments getting underway. Amazon's 1.5 million sq ft unit in Darlington, B&M Bargains' 1 million sq ft unit in Bedford and Shop Direct's 500,000 sq ft facility at the East Midlands Gateway scheme all commenced development in Q3.

Such high levels of purpose-built development activity is positive and is demonstrative of the strong levels of occupier demand for large scale facilities in the UK. However, the speculative development market has also intensified this year, and on a rolling annual basis, activity is currently fairly evenly split between occupier-led and speculative.

Speculative development activity is widespread, both geographically and in terms of the type of developer. We are seeing activity range from confident developers who are developing very large units, through to the smaller, more local developers, who are aiming to capitalise on the inherent strength of the occupier market. In all, we have recorded over 60 individual speculative development starts so far in 2018, which is more than the number of speculative development starts recorded during the whole of 2017.

Rolling four quarter development starts, by type, Q4 2007 – Q3 2018
Source: Gerald Eve



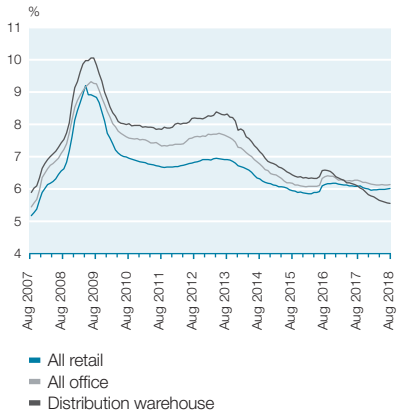
STRENGTH OF OCCUPIER MARKET ATTRACTS SIGNIFICANT LEVELS OF CAPITAL

After a subdued second quarter, in Q3 we recorded prime rental growth in 9 out of our 51 centres with an overall rental growth rate of 0.9%. Substantial increases were recorded in locations such as Enfield, Slough and a few centres in the North East, and, rents are now an average of £7.27 per sq ft in the UK, the highest average prime rent on record.

This, combined with the well-publicised underperformance of other asset classes, such as retail, and the inherent strength of the occupier markets has made industrial and logistics the asset class of choice for many commercial property investors.

Pricing for industrial has reached record levels, yet there is still a burgeoning weight of capital targeting the UK industrial sector. There continues to be competitive tension on the investment stock that comes to the market. This in turn has fostered an environment of significant yield compression, which, when viewed against other main asset classes, highlights the structural shift which is underway in the UK commercial property market.

Monthly equivalent yields by broad asset class, August 2007 – August 2018
Source: Gerald Eve



DEMAND SET TO EXCEED 2017 BUT BREXIT REMAINS KEY DOWNSIDE RISK

With over 4 million sq ft currently under offer and a number of large requirements for space in the market, we are optimistic that take-up in 2018 will exceed the volume recorded in 2017. There are several well known occupiers with plans to continue investing heavily in their networks.

This will continue to be of benefit to the occupier market, but, for investors, it is worth bearing in mind that we are now late in the cycle in the UK and are forecasting limited future yield compression. Much therefore depends on the rental growth and income return prospects of the sector in what could be a turbulent next few quarters. Whilst industrial property is one of the best placed commercial property sectors to be able to withstand market uncertainty, it will not be immune to any Brexit-related market movements.

Brexit and associated political uncertainty are perhaps the key downside risks to the outlook for the sector, with any potential negative impacts likely to be industry-specific and interest rate-related. However, there are several investors out there waiting for such a time in the market where others may hesitate, which in turn could keep volumes and activity levels high as investors seize their opportunity.

Whilst the medium term political and economic outlook looks uncertain, the ongoing structural change in the high street retail market is much clearer. We are recording an increased number of administrations, CVAs and high street store closures in the sector. Many retailers, especially those hindered by a long tail of outdated high street stores, are rationalising their high street store portfolios to stay afloat. As these traditional retailers modernise, it is likely that we will see renewed investment in their distribution networks in order to keep up with the fundamental change in shopping patterns. When combined with take-up from online retail specialists, this structural change in the retail market is likely to continue to be an important driver of demand for logistics property.

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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.

David Moule
advised Travis Perkins on the freehold disposal of 51,000 sq ft on Faraday Way, Orpington, securing a sale within 6 weeks of receiving instructions.

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Jason Print
advised Peel Logistics Property on the letting of a 176,000 sq ft speculatively built unit in Liverpool to a leading online bathroom suite retailer.

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Nick Ogden
is advising HPPUT on the sale of KT 353, a 102,000 sq ft UPS parcel delivery hub in Kentish Town, London.

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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.

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 16 European countries.