

PRIME LOGISTICS

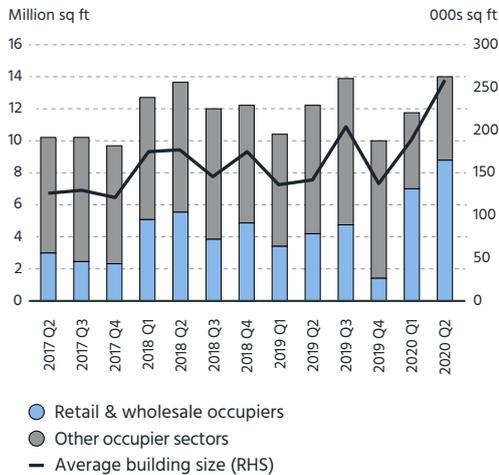
The definitive guide to the
UK's distribution property market

Q2 2020 Bulletin



Quarterly take-up by occupier sector and average building size

Source: Gerald Eve



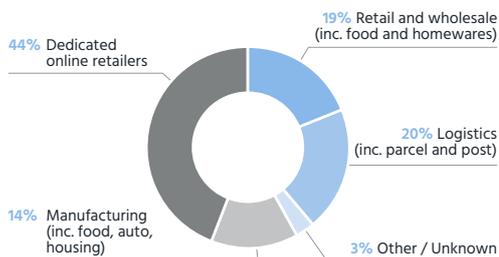
LARGE SCALE RETAILER COMMITMENTS DRIVE RECORD QUARTERLY TAKE-UP

Take-up totalled a record 14 million sq ft in Q2 2020, an increase of 19% on Q1 and 17% above the five-year quarterly average. The Q2 total does not include unverified off-market occupancy by the NHS as part of the response to the coronavirus epidemic, but it does include a handful of exceptional deals.

Amazon committed to, or received planning permission for, six buildings totalling over 6 million sq ft in Q2, with more in the pipeline either under offer or awaiting planning permission. In Q2 the 2.3 million sq ft scheme at Littlebrook in Dartford was the largest deal of the quarter and cements the company's ambitions for the London market and its multi-storey building design. These exceptional deals increased the average letting size to 259,000 sq ft, a record high.

Q2 take-up by occupier sector

Source: Gerald Eve



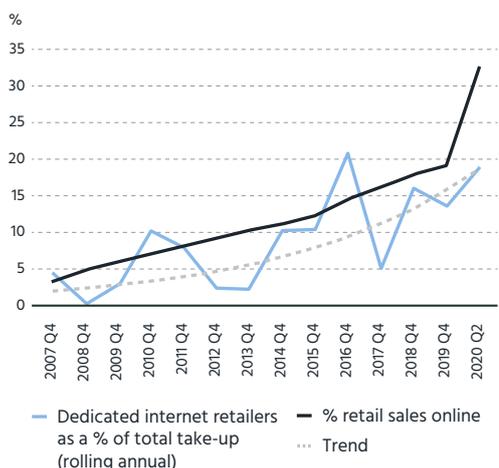
OCCUPIER ACTIVITY DUE TO LONG TERM STRATEGIES RATHER THAN SHORT TERM FIXES

Retailers and wholesalers accounted for 63% of Q2 occupier demand. Dedicated internet retailers alone accounted for 44%. A handful of Q2 deals were short term in nature to meet immediate covid-related business requirements, but the majority of retailer deals were the result of long-term discussions.

Outside of retail occupiers, a significant number of deals also came from logistics operators, which represented 20% of Q2 activity. This demand was focused in the Midlands and Merseyside and reflects 19 individual logistics companies committing to space. These include Clipper, Great Bear and Keuhne & Nagel at the larger end of the spectrum, and companies such as DPD, WH Malcolm, Royal Mail and Aramex in the mid-box market.

Dedicated online retailers proportion of total take-up and proportion of all retail sales online

Sources: ONS, Gerald Eve



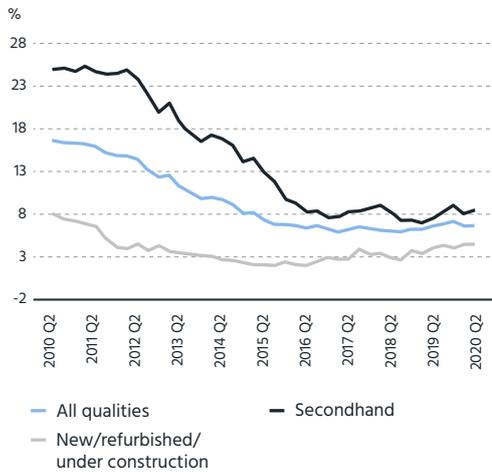
SHARP INCREASE IN INTERNET RETAIL SALES DURING LOCKDOWN HAS POSITIVE IMPLICATIONS FOR LOGISTICS

As non-essential stores were closed and the UK entered lockdown, shoppers turned virtual - pushing up online sales to 33% of the total in May. This acceleration has invigorated many logistics occupiers' preparations for a future of increased e-commerce and home delivery. As the 'physical internet', demand for logistics real estate is going to be a key beneficiary of this switch.

Dedicated online retailers have accounted for an increasing proportion of total industrial occupier demand over the last 10 years. However, the impact on the market of the switch online is pervasive through many occupier sectors, with logistics occupiers and other retailers also increasing their logistics networks to support their online ambitions. Many of the long term trends emerging from this pandemic, such as increased home working and shopping online could all directly or indirectly feed into increased demand for logistics property.

Availability rates by building quality

Source: Gerald Eve



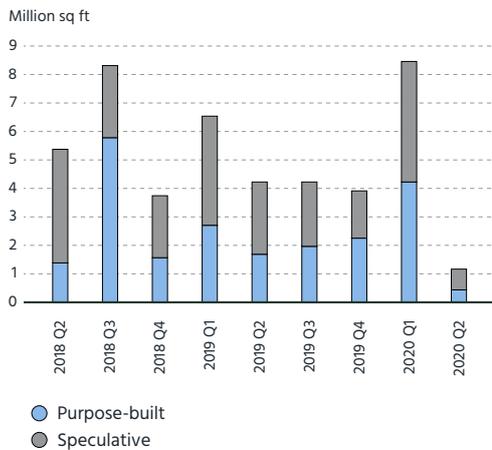
AVAILABILITY REMAINS LOW, BUT SECONDARY SPREAD SET TO WIDEN

The availability of industrial space remained broadly flat in Q2, at 6.6% of all stock. Whilst there was occupier interest in speculative buildings in Q2, the delivery of new speculative supply kept the volume of new available space on par with Q1. Similarly, the return of secondhand space (by the likes of Debenhams and Argos) offset occupier demand for these kinds of units.

We expect this spread between the new and secondhand availability rates to widen by the end of 2020 as more secondhand space is returned and occupiers continue to gravitate towards the best quality units, which will keep new supply in check. Occupier sectors most negatively impacted by the coronavirus, including aviation, automotive and some bricks-and-mortar retailers are likely to reduce their logistics footprint as the government winds down support packages. Some of this returned space could help alleviate supply shortages in certain markets, and, is also likely to be returned at the same time as occupiers again prepare their businesses for Brexit.

Development starts, by type

Source: Gerald Eve



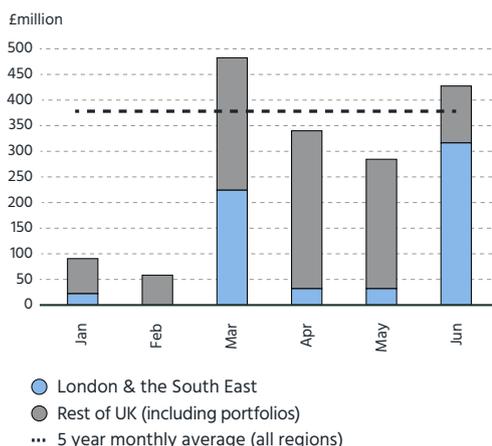
CORONAVIRUS PUTS THE BRAKES ON NEW DEVELOPMENT STARTS

At end-Q2 2020, there was around 18 million sq ft under construction across the UK – with around half of this speculative. However, the number of buildings that *started* construction in Q2 fell sharply to just 1.2 million sq ft, the lowest quarter since Q4 2012. This reflects the physical difficulties contractors had getting on site in early Q2, and a general reticence by some developers to start large scale schemes, especially speculative ones.

Whilst some developers are undeterred, in general, we expect development activity to be muted in H2 2020. This in turn will keep a lid on the supply of new space in the short term. For this prime end of the market, which is also most attractive to the acquisitive retailers who are buoyed by the significant switch online, the supply/demand imbalance and consequent upward pressure on prime rents looks set to continue into 2021.

Distribution warehouse investment in 2020

Sources: Property Data, Gerald Eve



SIGNIFICANT WEIGHT OF CAPITAL TARGETTING THE SECTOR

In April, many investors put transactions on hold until there was more clarity on what impact the coronavirus would have on UK property. In May, investors could see that pockets of logistics property would benefit from the lockdown and longer lasting changes in shopping and working habits. Confident in the security of income, deals were revived. Enhanced due diligence was undertaken and the income profile of opportunities rechecked.

In June, the market returned in earnest and any lost ground was largely recouped. London and the South East, where positive trends are more evident, was a key focus. There is anecdotally over £10 billion allocated to UK industrial which, given limited stock, is likely to lead to increased competition and help support investment pricing. Most investors expect tenant default rates to increase in H2 2020, especially amongst SMEs, but view this against low vacancy rates, strong quarter day rent collection and the continued structural shift online.

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.



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advised a major 3PL on the acquisition of a new 85,000 sq ft distribution facility – Urban 85 – in Enfield as part of their London growth strategy.

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Jason Print

has been appointed joint agent by HBD and Barnfield Construction on East at [Preston East](#), an 18 acre design and build scheme in Preston.

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advised AEW and Allianz on the speculative funding of Wakefield 515, a 515,000 sq ft unit in Normanton, which is now under construction, and available in Q2 2021.

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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 advice. No responsibility can be accepted for loss or damage caused by any reliance on it.

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