

PRIME LOGISTICS

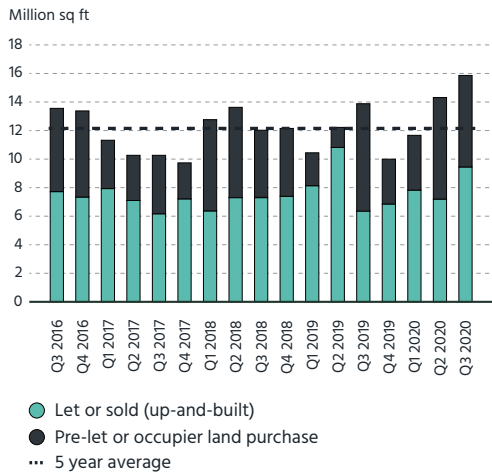
The definitive guide to the
UK's distribution property market

Q3 2020 Bulletin



Quarterly take-up by event type and five year average

Source: Gerald Eve

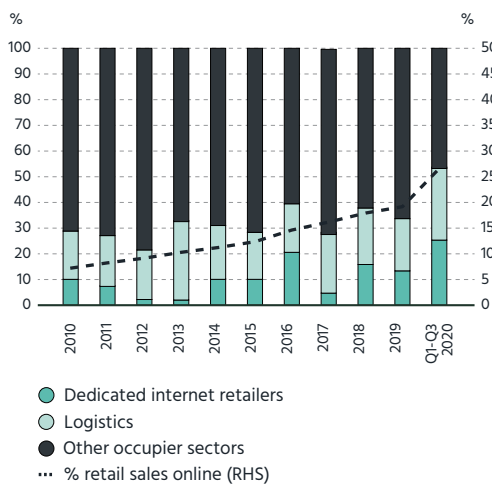


COVID POSITIVE FOR LOGISTICS DEMAND

Q3 take-up hit a record-high 15.8 million sq ft in Q3 2020, an increase of 10% on the previous record in Q2 and 29% above the 5 year quarterly average. UK logistics continues to benefit from the indirect impacts of the pandemic, including the accelerated switch to online retail and home delivery, and, the need for supply chain security. Covid has also brought about direct demand for logistics, with almost 2.5 million sq ft of space taken up by PPE and pharmaceutical-related manufacturing and logistics companies in Q3. Many occupier businesses positively impacted by the pandemic have been quick to expand capacity, increase hiring and implement long term property solutions, which has pushed the rolling annual take-up to the highest on record.

Annual occupier take-up by sector and % retail sales online

Source: Gerald Eve

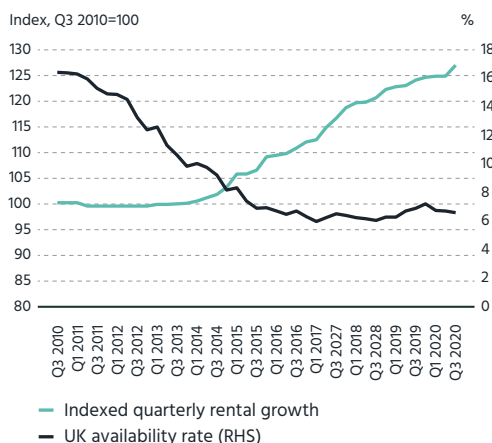


INTERNET RETAIL AND LOGISTICS OCCUPIERS DRIVE DEMAND

Amazon committed to or received planning on over 3.5 million sq ft of logistics space in Q3. This includes a 2.3 million sq ft pre-let at Panattoni Park Swindon, the largest deal of the quarter, and the letting of IM Properties's speculatively built Hinkley 532. However, logistics companies were the most acquisitive sector in Q3, accounting for 47% of all activity. DHL, New Cold Logistics, Royal Mail and Clipper Logistics all made large scale commitments. Logistics companies have reacted to the sharp increase in online retail sales by significantly increasing their capacity and so far in 2020, logistics occupiers and dedicated internet retailers together account for over half of all occupier activity.

Indexed prime rental growth and UK availability rate

Source: Gerald Eve

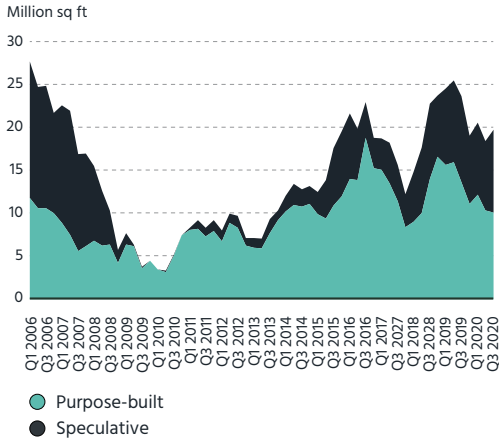


URGENT DEMAND FOR NEW SPACE TRIGGERS WIDESPREAD PRIME RENTAL GROWTH

Despite occupiers such as Laura Ashley, Sainsbury's and TDG returning secondhand space, the overall UK availability rate fell for the third consecutive quarter in Q3, to 6.5%. The availability rate for new or modern stock fell particularly sharply to 3.6% in Q3, from 4.5% in Q2, and the volume of new space on the market is the lowest since Q1 2019. As occupiers flocked to up-and-built good quality space in Q3, prime headline rents grew by an average 2% across the country, with the sharpest increases recorded in London and the North West. Lease terms were more complex and nuanced in Q3, and the overall package of incentives expanded in line with longer lease lengths, which averaged 12 years in Q3.

Space under construction by building type

Source: Gerald Eve

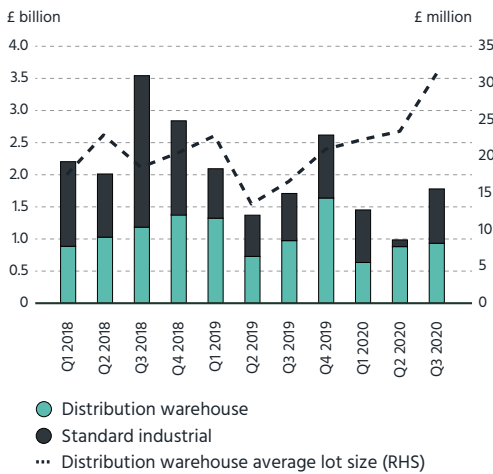


FIVE-FOLD INCREASE IN DEVELOPMENT ACTIVITY IN Q3

Following the Covid-induced slowdown in development starts in Q2, we saw a five-fold increase in development activity getting underway in Q3. In all, 7.4 million sq ft started construction in Q3, of which 45% was speculative. 25 separate speculative buildings started construction in Q3 as developers such as PLP and St Modwen instigated speculative projects across the UK. In terms of purpose-built development starts, IM Properties started on the Appleby Magna scheme for JLR and Hargreaves started on the Home Bargains unit in Doncaster. At the end of Q3 2020, there was 19.7 million sq ft of space under construction across the country, within 90 individual buildings. 9.6 million sq ft of this, or 49% of all activity, was being developed speculatively, with an average building size of 166,080 sq ft. Regionally, there was most space under construction speculatively in Merseyside & Cheshire, South and West Yorkshire and the Northern East Midlands.

Industrial investment volumes by type and average distribution warehouse lot size

Sources: Property Data, Gerald Eve

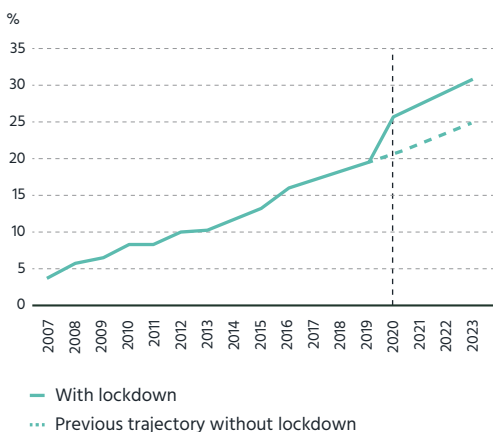


LACK OF SUPPLY DRIVES FURTHER YIELD COMPRESSION

As investors rewrite their post-Covid investment strategies and increase allocations to UK industrial, the weight of money targeted at the sector has increased significantly. Amazon-occupied buildings continue to attract investor interest as L&G bought Amazon's 2.3 million sq ft unit in Swindon for £202 million / 4.3% at the end of Q3, the highest price paid for a standalone building on record. This, plus a handful of large portfolio deals, pushed up the average lot size for the fifth consecutive quarter. Whilst some Korean investors have been selling out of UK logistics in Q3, investment supply is weak, and investors have had to innovate to get exposure. This has been through seeking opportunities around weaker covenants or longer-term redevelopment opportunities, but we have also seen some investors buy assets on practical completion to bolster returns by taking on the letting risk.

Proportion of retail sales online

Source: ONS, Gerald Eve



OCCUPIERS BRACED FOR BREXIT, COVID LOCKDOWNS AND CHRISTMAS PEAK

As we enter Q4 and yet another Brexit deadline, we are likely to see inventory levels rise, supply chain resilience planning put in place and logistics companies ramp-up delivery capacity for the peak Christmas period. Several companies in the food and grocery sector, including Aldi, Morrisons, Asda and Deliveroo are increasing their capacity for online delivery and scaling-up employment, acutely aware of the elevated demand for home delivery and the potential shortage of skilled drivers and warehouse workers created by Brexit. The rise in ecommerce has been the major catalyst for recent growth, but there are new emergent growth areas for the economy which could also have a positive impact on the logistics sector. These include house building / home improvement, technology and content creation, pharmaceutical, renewable energy and food. These in turn could feed through into increased demand from home-related retailers and manufacturers, data centres, and for strategically located cold storage units.

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

is marketing an 81,651 sq ft cross-docked warehouse with chilled, frozen and ambient storage at [Alpha Way in Egham](#).

Mobile +44 (0)7905 764910



Jon Ryan-Gill

is marketing [EMDC525](#), a 523,404 sq ft cross-docked warehouse in Castle Donington with 2 MVA power supply, 18m clear internal height and close proximity to East Midlands Airport.

Mobile +44 (0)7961 820757



Jason Print

advised Stoford and Oxenwood on the letting of the 72,740 sq ft speculatively built Stone Cross 72 in Golborne to PPE manufacturer, Globus.

Mobile +44 (0)7833 170680

INDUSTRIAL & LOGISTICS CONTACTS

Agency

London & South East

Mark Trowell
Mobile +44 (0)7768 987508
mtrowell@geraldeve.com

David Moule
Mobile +44 (0)7905 764910
dmoule@geraldeve.com

Josh Pater
Mobile +44 (0)7782 271355
jpater@geraldeve.com

Midlands

Jon Ryan-Gill
Mobile +44 (0)7961 820757
jryan-gill@geraldeve.com

John Sambrooks
Mobile +44 (0)7919 624512
jsambrooks@geraldeve.com

North

Jason Print
Mobile +44 (0)7833 170680
jprint@geraldeve.com

South West & Wales

Richard Gatehouse
Mobile +44 (0)7710 171854
rgatehouse@geraldeve.com

Scotland

Sven Macaulay
Mobile +44 (0)7767 310373
smacaulay@geraldeve.com

Investment

John Rodgers
Mobile +44 (0)7810 307422
jroddgers@geraldeve.com

Nick Ogden
Mobile +44 (0)7825 106681
nogden@geraldeve.com

Lease Consultancy

Chris Long
Mobile +44 (0)7767 618623
clong@geraldeve.com

Ian Gascoigne
Mobile +44 (0)7917 845672
igascoigne@geraldeve.com

Rating

Keith Norman
Mobile +44 (0)7836 549774
knorman@geraldeve.com

Valuation

Richard Glenwright
Mobile +44 (0)7944 585528
rglenwright@geraldeve.com

Research

Steve Sharman
Mobile +44 (0)7508 008118
ssharman@geraldeve.com

Ben Clarke
Tel. +44 (0)207 333 6288
bclarke@geraldeve.com

Oliver Al-Rehani
Mobile +44 (0)7584 112501
oal-rehani@geraldeve.com

Property Asset Management

Jennifer Cottle
Mobile +44 (0)7919 520700
jcottle@geraldeve.com

International

Hettie Cust
Mobile +44 (0)7920 267523
hcust@geraldeve.com

OFFICES

London (West End)

72 Welbeck Street
London W1G 0AY
Tel. +44 (0)20 7493 3338

London (City)

Bow Bells House
1 Bread Street
London EC4M 9BE
Tel. +44 (0)20 7489 8900

Birmingham

45 Church Street
Birmingham B3 2RT
Tel. +44 (0)121 616 4800

Cardiff

32 Windsor Place
Cardiff CF10 3BZ
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)113 204 8419

Manchester

No1 Marsden Street
Manchester M2 1HW
Tel. +44 (0)161 259 0450

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 229420

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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