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1 INTRODUCTION

1.1 BACKGROUND

BNP Paribas Real Estate are market leaders in all aspects of property advice relating to the industrial and logistics sector. Across the country we have expert teams covering agency, investment, lease advisory, business rates, planning, valuation, corporate real estate, building consultancy and research.

For many years we have noticed that across the property industry the terms industrial, standard industrial, logistics and distribution are used almost interchangeably when talking about either large warehouses or smaller units on industrial estates.

The aim of this report is to bring clarity and transparency to the Industrial sector as a whole by creating a bespoke sample from the IPD All industrial universe that draws out information on the logistics sector across the country.

Building on the successful BNP Paribas Real Estate Logistics Matters Research series this research, in partnership with IPD, uses the same definition for Logistics as our previous work: units let to a single occupier over 50,000 sq ft in size.

In order to create this sample BNP Paribas Real Estate took the pre-existing IPD Distribution Warehouses sample and then identified units that matched the size threshold from the remainder of standard industrial. BNP Paribas Real Estate were also able to use their extensive knowledge of the logistics sector to identify tenants, and therefore units that were also being used for a logistics related purpose.

This created a bespoke sample of properties that is a closer match to what is happening in the world of operational logistics.

Throughout the report we refer to “logistics”, “all industrial” and “standard industrial”.

- Logistics is the BNPP RE sample.
- All industrial is the entire industrial sector group
- Standard industrial is the remainder of assets in all industrial when the assets chosen for the logistics sample are removed.

The main aim of this report is to look at how these Logistics assets behave, relative to the remaining Standard Industrial units.

As figure one demonstrates Logistics began to separate itself, in terms of asset performance, in the early 1990’s. This is in line with the evolution of operational logistics and supply chain management and the creation on National and Regional Distribution centres. An index with a booming performance in the early 1990’s and a stable performance above that of the Standard Industrial units develops. This index reaches a higher peak in 2006 and over the course of the last three years has set itself apart from Standard Industrial assets; Logistics is certainly an index that is deserving of further examination.

Our report is provided in two sections;

- We firstly provide a logistics market update covering supply, demand and forecasts for 2011
- Secondly IPD provide an analysis of the performance of logistics and industrial assets for 2010 (to date), 2009 and long term historical performance across the regions.
1.2 IPD OVERVIEW

IPD is a global information business, dedicated to the objective measurement of commercial real estate performance. As the world’s number one provider of real estate performance analysis for funds, investors, managers and occupiers. IPD offers a full range of services including research, reporting, benchmarking, conferences and indices. Operating in over 20 countries including most of Europe, the US, Canada, Australia, New Zealand and Japan, its indices are the basis for the developing commercial property derivatives market, and the most authoritative measures of real estate returns worldwide.

Within the UK, IPD’s suite of performance indices is accepted as representing the performance of the UK property market. The 2009 IPD UK Annual Index represented information collected from 288 funds investing in property, which held a combined total of 10,986 assets valued at more than £117 billion – equivalent to 55% of the UK investment market. The Index tracks the performance of UK commercial property all the way back to 1971.

1.3 REFERENCE SAMPLE AND TERMS

‘Total return’ is the overall level return derived from property. This is comprised of income return - the money investors receive from rent (net of costs) - and capital growth - the change in the capital value of the property. Income return might be compared to the dividend on a company’s share; capital growth could be compared to the change in price of the share.

The capital value of a property is affected by two factors, rental levels and yield levels, meaning that capital growth can be split out further into two drivers.

- ‘Rental value growth’ is the change in the level of rent that a valuer estimates a property might achieve were it let on the open market. If a valuer thinks that open market rental values have risen from say £40 psf to £50 psf, rental value growth would be 25%, and capital values would increase by this amount, all other factors remaining the same.
- ‘Yield impact’ quantifies the impact on capital values of a change in yields. If yields rise, capital values fall; conversely, if yields fall, capital values rise. A positive yield impact of say 10% would indicate that yields had fallen by such an amount as to increase capital values by 10%. Likewise, a negative yield impact of say -15% would show that a rise in yields had caused capital values to fall by 15%.

This report is focused on Industrial assets within the IPD Annual Index and is based on a sample size of 2,939 properties as at December 2009 with a combined value of £18,021 million.

<table>
<thead>
<tr>
<th>Table 1: Sample Size</th>
<th>Capital value (£million)</th>
<th>Number of properties (end 2009)</th>
<th>% of total UK IPD Industrial assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Logistics</td>
<td>4,779.5</td>
<td>529</td>
<td>26.5</td>
</tr>
<tr>
<td>Standard Industrial</td>
<td>13,241.1</td>
<td>2,410</td>
<td>73.5</td>
</tr>
<tr>
<td>All Industrial</td>
<td>18,020.6</td>
<td>2,939</td>
<td>100</td>
</tr>
</tbody>
</table>
2 MARKET COMMENTARY

In this section we provide a market update based upon the data we collect on a quarterly basis. All figures refer to new and second hand property over 50,000 sq ft.

2.1 SUPPLY

Since our last market update in Q4 2009 supply in UK logistics and industrial market has increased by less than 1% to 139.6 million sq ft. Throughout 2010 total nationwide supply has hovered stubbornly around the 140 million sq ft mark, the lowest quarter being Q2 with a total supply of 137.1 million sq ft.

As we discuss further in the report take up for 2010 has been relatively buoyant, this however has not dented the supply figures. This is mainly due to a number of large build to suit deals and deals for new units returning significant stocks of second hand supply to the market.

The regional breakdown of supply has also not changed throughout 2010 with 75% of all stock located in the core regions of the Midlands, the South East, Yorkshire and the Humber and the North West, as figure 2 demonstrates. Of the core regions the Midlands has the lowest proportion of stock at 17% which equates to 23.4 million sq ft. Yorkshire and the Humber remains the region with the highest amount of stock, 28.4 million sq ft or 21% of all stock.

The level of new, previously unoccupied stock, continues to decrease at a nationwide level, with Q3 2010 showing the smallest level of new supply since BNP Paribas Real Estate began the time series. Figure 4 shows us that at the start of 2009 the level of second hand stock was 62% of total supply, by Q3 2010 second hand stock had reached 75% of total supply.

All regions now have more second hand stock than new, although the proportions of total stock vary. In South Wales for example new units account for only 4% of total supply where as in Yorkshire and the Humber new stock accounts for 36% of supply. In the Midlands this figures rises to 43%. 

![Figure 2: Total nationwide supply by region](image)

![Figure 3: Grade of supply by region (million sq ft)](image)

![Figure 4: Total supply by quarter (million sq ft)](image)
Examining supply and comparing with an annualised take up rate provides our years of supply figures, whilst vulnerable to fluctuation due to large deals especially in non-core regions, they provide a further interesting view of the market. Based upon current take up levels the South West has only 1.8 years of supply remaining, the Midlands 2.4 and London and the South East 4.4 as highlighted in figure 5. Breaking this down to look at new supply the Midlands has only 1.5 years worth of stock and the South West just 1 year remaining.

Whilst this paints an attractive picture for stock in the Midlands examining supply by size band gives a very different perspective. Figure 6 shows us that the 250,000 sq ft + bracket accounts for only 14% of all stock, this rises to 20% in London and the South East. However, our industrial agency teams in both the Midlands and the South East are starting to report localised pockets of undersupply, meaning occupiers have to have a more flexible approach unless they are prepared to examine the design and build market.

Outlook
We expect this pattern to continue into 2011 with the continued take up of the remaining new units and the return of second hand stock to the market. With this in mind it would be wise to suggest that there is a market for speculative development in 2011 in both the Midlands and the South East for larger units. However, the availability of credit to fund schemes on land purchased at the height on the market may prove an obstacle to such development.

2.2 TAKE UP
Take up for 2010 (to end of Q3) has totalled 24.97 million sq ft which is 15.8% up on the same period in 2009. Should this trend continue we estimate that take up for 2010 will be 33.29 million sq ft, an 11.5% increase on 2010.

We believe that this relatively buoyant take up has been driven by a number of factors such as:

- occupiers making the most of generous lease terms offered by landlords
- occupiers consolidating their supply chains to reduce property costs
- occupiers expanding their supply chains to get closer to their customers
- The emergence of new occupier groups such as waste and recycling operators.

We have also saw the emergence of the second hand market as a direct competitor to modern stock, especially for good quality fitted out second hand stock. With this in mind 60% of all deals have been completed on second hand stock.
The return to core regions is becoming more pronounced with every quarter that passes. In Q1 2010 the Midlands accounted for 45% of all industrial and logistics transactions by floor space. The same is true in Q3 2010, where the Midlands accounted for 40% of all take-up.

It should however be noted that all core regions have been performing well in 2010, by the end of Q3 2010 for example the South East had already outperformed compared to all of 2009. Yorkshire and the Humber has also started to capitalise on the volume of supply in the market with strong performance in Q2 and Q3 2010.

Key nationwide deals for the first half of 2010 include internet retailer ASOS taking over 500,000 sq ft at Prologis’ Crossflow building in Barnsley, Tesco taking a pre-let for a 500,000 sq ft unit in Bream Reach in Essex and Dart Group taking over 500,000 sq ft at Heywood Park in Manchester.

In 2009 we recorded that 52% of all deals were in the 50-100,000 sq ft size band. For 2010, this size band is also the highest, however it has dropped back to 46% of all deals. In the 250,000 sq ft + category there were 26 deals, over double the amount of deals than the same period in 2009, accounting for 44% of the floor space taken.

These larger deals have helped to raise the average size deal up from 139,000 sq ft in 2009 to 160,000 sq ft in 2010.

The bulk of larger deals have involved retailers, both food, high street and internet. We have also seen strong performance from the waste and recycling industry, however the bulk of these transactions have involved sites and not existing buildings.

**Outlook**

For 2011 we expect take up to remain high although it will most likely not reach the level we expect for 2010. Retailers are still driven by supply chain efficiencies and there are many high profile requirements in the market for over 500,000 sq ft.

Such deals will keep take-up at a nationwide level high however; beneath the surface 2011 will be a tough year for take-up outside of the core regions.

The waste and recycling industry will also perform well in 2011. This is due to the high amount of merger and acquisition in the industry and the increased requirement of private sector finance due to the lack of PFI funding which was withdrawn as part of the comprehensive spending review.
3 PERFORMANCE

In this section we analyse the performance of the BNP Paribas Real Estate Logistics index and compare performance measures with the remaining standard industrial properties as defined in section 1.1.

In the first instance we look at performance in 2010, followed by 2009 in section 3.2 and lastly at historical performance across regions in section 4. In many cases, on a regional level the data goes back to 1981, however some exceptions are true, such as Wales where the Logistics Index starts in 1994.

3.1 PERFORMANCE COMPARISON 2010

The first quarter of the year saw a continued hardening of yields across the property market, yields were moving in, whilst rental values continued to fall. The second quarter saw this yield contraction abate and the market also saw a slow down in rental value falls. Total return at an All Property level was 6.0% q/q in Q1 and 3.4% q/q in Q2.

Looking more specifically at the Industrial sector, Figure 11 compares the performance of the Logistics segment against that of the Standard Industrial and All Industrial in the first half of 2010.

- At the national level, the total returns provided by each of these sectors thus far in 2010 have converged; there are no longer the clear differences in the annual total returns experienced in 2009.
- Logistics still provided the strongest return to investors up to the end of June 2010, with a total return of 7.2% h/h. The Standard Industrial segment total return was a touch lower at 6.9% h/h and the All Industrial total return came in at 7.0% h/h.
- Logistics has outperformed Standard Industrial assets in six of the nine major UK regions.
- The largest outperformance was seen in the North West, where the Logistics sector total return of 7.5% h/h was over 170 basis points higher than that of the Standard Industrial sector at 5.7% h/h.
- London and the South East provided the highest total return in H1 2010 with 8.1% h/h; this was followed closely by the Eastern region at 7.8% h/h.
- Yorkshire & Humber has continued its poor performance from 2009 into the first half of 2010, posting the lowest total return at 5.8% h/h in the East Midlands and Scotland respectively. This was not enough to outperform the Standard Industrial sector, which saw stronger returns at 7.1% h/h and 6.3% h/h in each region respectively.

The main driver of the improvement in performance in the Standard Industrial segment was a positive movement in yields. These standard industrial assets are now seeing stronger yield contraction as market sentiment for this asset class improves and funding becomes more readily available.
3.2 PERFORMANCE IN 2009

Table 2: Total return comparison, national level, 2009

<table>
<thead>
<tr>
<th></th>
<th>Logistics</th>
<th>Standard Industrial</th>
<th>All Industrial</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Return</td>
<td>8.5</td>
<td>2.6</td>
<td>4.1</td>
</tr>
<tr>
<td>Income Return</td>
<td>8.2</td>
<td>8.0</td>
<td>8.0</td>
</tr>
<tr>
<td>Capital Growth</td>
<td>0.3</td>
<td>-5.0</td>
<td>-3.6</td>
</tr>
</tbody>
</table>

Source: IPD Annual Index

- In 2009 the Logistics sector total return of 8.5% y/y was more than triple the 2.6% y/y total return provided by Standard Industrial units and double that of the 4.1% y/y supplied at the All Industrial level.
- Total return can be split into an income and capital component and, as table 2 shows, it was differences in capital movements that underpinned this favourable performance for logistics in 2009.
- The negative capital growth movement of -5.0% y/y adversely affected the overall total return in the Standard Industrial segment, whilst the positive capital growth in logistics of 0.3% y/y added to the overall total return.
- Income return was at a similar level across the Industrial sector in 2009. The income return in the Logistics sector, at 8.2% y/y, was a shade higher than the 8.0% y/y provided by Standard Industrial units.

Figure 12 looks into the regional performance of industrial assets in 2009 and shows that the excellent year that the logistics sector experienced was not located solely to one region. In each of these nine locations the Logistics sector outperformed both the Standard Industrial and All Industrial segments. Looking at the Standard Industrial units, there is a general trend of diminishing returns as one moves northwards through England; the highest total return was seen in London and the South East at 4.8% y/y, whilst the East Midlands, West Midlands, Yorkshire & Humber and the North West all posted increasingly negative returns in 2009. This trend is not evident in the Logistics segment where the outperformance was more evenly distributed around the country. The highest performing region in England was the South West at 12.5% y/y, this was followed by the West Midlands total return of 10.8% y/y, then the North West, Eastern and East Midlands returned similarly at 9.6% y/y, 9.4% y/y and 8.9% y/y respectively. The highest logistics total return was experienced in Wales at 15.9% y/y, compared to the -4.8% y/y seen in the same region for Standard Industrial units.

Table 2 illustrated that the outperformance by the Logistics segment was provided by a more favourable capital return. One of the main drivers of capital return is yield impact, which indicates the effect of yield movements on capital growth. Figure 13 shows that, at a regional level in 2009, the outperformance of the capital growth in Logistics was driven by favourable yield movements, adding to capital values. In the Standard Industrial sector, yields contracted in only London and the South East and Eastern regions, adding the equivalent of 1.2% y/y and 0.7% y/y respectively. All other regions in this sector saw expanding yields detracting from capital values. Large negative yield impact values were seen across the Midlands, Yorkshire and Humber and the North West. The most negative region however was Wales, with a yield impact removing the equivalent of -7.1% from capital values.
Wales conversely was a booming region for the Logistics segment where yield movements added the most to capital values with a yield impact of 7.9% y/y. This disparity in returns is largely due to the shift in occupier markets; there has been a downturn in manufacturing activity and a rise in major retailers locating in the area. Logistics operations located in Wales are located there because they need to be there, and anecdotal evidence suggests that occupiers will have located for longer periods of time. Moreover as the supply figures from section 2 demonstrate there is a clear undersupply of modern large stock in Wales.

The second largest movement in Logistics yields was experienced in the South West, where yield impact reached 6.5% y/y, in contrast to the still expanding yields in the Standard Industrial sector where yield impact was a negative -0.7% y/y. This is a strong area for distribution and investor sentiment has been buoyed in recent times by the Bristol Port Company’s plans to create a deep water container terminal at Avonmouth.

Figure 14 examines more specifically at the Logistics segment and shows the breakdown of total return across each region. Income return was the significant positive driver in Logistics across the board, with all the regions providing a return of 8.0% y/y or above, with the exception of Yorkshire and Humber which had an income return of 6.7% y/y. This, coupled with the only negative yield impact, ensured that Yorkshire & Humber was the lowest performing Logistics region in 2009, with a total return of 2.9% y/y.

The positive effects of the yield movements can be seen by the mid green bars, boosting capital growth. However, the other main driver of capital return, rental value growth, can be seen to have a negative effect on capital return across each of the nine regions. The largest falls in rental values were seen in the North West region at -7.4% y/y. The area has experienced large amounts of speculative development in recent years and this has caused a situation of over supply that has negatively affected rental values. The West Midlands also saw some large falls in rental values during 2009, at -6.4% y/y. The shallowest rental value declines were seen in the London and the South East region and Scotland at -4.1% y/y and -2.2% y/y respectively.

The light green illustrates the effect that the income residual has on total return. The income residual is caused primarily in markets where rental values of an asset are falling, but the underlying tenant’s lease structure prevents these falls from being fully realised in the final capital growth movement. This can be seen, for example, in the North West region which saw the largest rental value falls and experienced the largest positive residual at 4.1% y/y, compared to the relatively small residual of 0.4% y/y seen in Scotland, where falls in rental values were not as pronounced.
4 LONG TERM PERFORMANCE

4.1 NATIONAL LEVEL

Table 3: Annualised total return comparison

<table>
<thead>
<tr>
<th></th>
<th>3 years</th>
<th>5 years</th>
<th>10 years</th>
<th>20 years</th>
<th>29 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Logistics</td>
<td>-6.8</td>
<td>2.4</td>
<td>6.8</td>
<td>9.0</td>
<td>10.6</td>
</tr>
<tr>
<td>Standard Industrial</td>
<td>-7.7</td>
<td>1.8</td>
<td>6.9</td>
<td>8.3</td>
<td>10.2</td>
</tr>
<tr>
<td>All Industrial</td>
<td>-7.5</td>
<td>2.0</td>
<td>6.9</td>
<td>8.3</td>
<td>10.2</td>
</tr>
</tbody>
</table>

Source: IPD Annual Index

During the last three years (2006-2009) no sector was immune to the severe conditions in the investment markets and wider economy; all were hit hard. The Industrial sector total return over the three years of -7.5% y/y indicates the sector weathered the storm slightly better than the Office and Retail sectors with their respective total returns of -8.0% y/y and -8.7% y/y. The total return of -6.8% y/y for the Logistics sector over the same period indicates resilience by this type of asset over the course of the downturn.

Looking at the annualised total returns over the history of the index, other than the 10 year annualised return, the Logistics sector has provided investors with stronger returns than the Standard Industrial sector. The largest outperformance by the Logistics sector comes over the last three years, where the total return of -6.8% y/y, whilst negative, was 83 basis points higher than the -7.7% y/y provided by the Standard Industrial Sector. The largest total returns come from investing over the full period of the 29 year index where Logistics is the top performer with a total return to investors of 10.6% y/y, whilst the Standard Industrial sector and the All Industrial sector returned similarly at 10.2% y/y.

Figure 15 looks at the annual total return provided by All Industrial and the two industrial segments under analysis, over the full history of the IPD annual index. During the boom period of the late 80s the Logistics sector was very much in its infancy and as such, total returns were seen to be very similar to that of the Standard Industrial assets. During this early period, the industrial sector saw a gradual increase in the outsourcing of manufacturing to cheaper locations such as Asia and Central Europe, thus increasing the need for warehousing and distribution space as more and more products were sourced from abroad. The general movement in the UK economy from being production based to service based also contributed to the initial rise in demand for Logistics assets in the UK.

At the peak of the cycle in 1988 there was a difference of only 10 basis points between the Logistics assets total return peak at 39.2% y/y and 39.3% y/y in the Standard Industrials. It was not until 1990 that a clear distinction between these asset classes emerged.

The Logistics assets bottomed out at a positive 0.8% y/y in 1990, but the Standard Industrial units fell into negative territory at -3.9% y/y, a gulf of over 460 basis points. As the investment market once again saw value in the property industry, the weakened pound encouraging foreign investors in particular into the UK market, valuers were quick to react to the fresh demand and prices rebounded in the early 1990s. This was particularly pronounced in the Logistics sector where total returns reached 13.6% y/y in 1991, outperforming the Standard Industrial total return of 8.6% y/y by nearly 500 basis points.
The largest boom for the Logistics sector came in 1993, with the emergence of many high profile deals occurring during the sector’s infancy; the previously heavily fragmented sector began a consolidation spree in the wake of the economic recession and the total return recorded reached its second highest point in the IPD index, at 31.8% y/y. This was almost entirely driven by favourable movements in yields adding to capital values. Even more remarkable was the difference between this and the Standard Industrial return of 19.8%, a disparity of over 12 percentage points.

However, the latter half of the 1990s was not quite as prosperous and in the period 1995 – 2000 Logistics provided investors with total returns below that of the Standard Industrial sector. This does however, illustrate how the behaviour of logistics assets differs from that of more standard industrial units; rental value growth was not seen to be as strong and yield movements did not add as much to capital values as in the Standard Industrial segment. This was most evident in 1998 when the Logistics assets total return of 9.6% y/y lagged the Standard Industrial total return of 14.3% y/y by 475 basis points.

The convergence of total returns of the Logistics and Standard Industrial units in the downturn seen from 2007 is indicative of the way in which the entire UK real estate market was affected during the credit crunch; all of the main sectors were affected similarly and there was a general convergence of total returns across sectors during the downturn. In 2008, the annual total returns for the main Retail, Office and Industrial sectors were -22.6% y/y, -22.4% y/y and -21.2% y/y respectively; the Logistics total return for the same period was the same as the All Industrial at -21.2% y/y.

However, we have seen logistics prove more resilient than the Standard Industrial units as they have emerged from the recession of the last three years with the strongest of the industrial assets total returns in 2009.

### 4.2 THE REGIONAL PATTERN

Annualised total returns compared over 3 years are compared in figure 16 looks across all regions of the All Industrial, Logistics, and Standard Industrial segments. Due to the nature of the real estate market and wider economy over this period, the total returns across each region are negative.

- The Logistics segment out performed in all regions except Eastern, where it provided a lower total return than both All Industrial and Standard Industrial assets.
- The largest outperformance by the Logistics sector was seen in Wales over the three year period; the total return of -5.7% y/y exceeded the -9.5% y/y recorded by Standard Industrial units by over 380 basis points.
- The East Midlands region also performed well with the logistics total return surpassing that of Standard Industrial units by 320 basis points.
- The next largest differences were seen in the North West and West Midlands, whilst Logistics total returns in the South West, Scotland and London and the South East were at a more similar level to those in the Standard Industrial assets in those regions.
The relative performance of Logistics assets in each regional area compared to the national Logistics overall total return over the last three years are compared in figure 17. It shows which components of total return conspired to cause the over or underperformance within a specific region, relative to the national average.

- Rental value growth is a large factor in determining where the out or underperformance of each region has come from over the last three years, as illustrated by the large dark green bars.
- In London and the South East, a lower income return and yield impact worked to lower total return within the region, whilst rental value growth at -0.8% y/y was half that of the -1.6% y/y All Property figure, this resulted in a relative total return outperformance of 0.1% y/y.
- Conversely in the North West region, although the -6.5% y/y total return was above the national average of -6.8%, rental value growth was conspiring to drag returns with a relative underperformance of -1.7% y/y and it was only due to an above average yield impact that this outperformance occurred.
- Scotland benefitted from both more favourable rental movements over the last three years and a less severe expansion of yields relative to the national average, ensuring it was the most successful Logistics region over this time period. Rental value growth contributed 1.8% y/y and yield impact 1.5% y/y to this relative outperformance.
- The underperformance of the Yorkshire and Humber region was due to a number of factors performing worse than the national average, a relative income return and yield impact of -0.6% y/y and -0.5% y/y respectively were the most detrimental to overall return, but rental value growth was also worse than the national average with a relative -0.2% y/y under performance.

Figure 18 takes a longer view and looks at the regional performance of the Logistics assets relative to the All Industrial and Standard Industrial segments over the last ten years. This time period takes us back to 2000 and in that sense incorporates the full cycle experienced over the last ten years.

- The largest total returns over this period were seen in Scotland and Wales, across both Logistics and Standard Industrial assets; the largest return was seen in Scottish Logistics at 8.4% y/y, this was over 160 basis points higher than the ten year annualised All Logistics figure of 6.8% y/y and a fantastic result for the region.
- The largest outperformance between Logistics and Standard Industrial assets was seen in the West Midlands, where the Logistics return of 7.1% y/y was over 130 basis points higher than the 5.8% y/y returned by the Standard Industrial assets.
- The North West also performed strongly relative to Standard Industrial assets, with Logistics outperforming Standard Industrial units by 70 basis points.
- There was not outperformance across all of the regions, with London & South East and Yorkshire & Humber Logistics assets providing ten year returns lower than that of the returns seen in the Standard Industrial assets.
- The London and the South East return of 6.8% y/y in Logistics was on par with the All Logistics total return, but was 50 basis points lower than the 7.3% y/y total return provided by Standard Industrial units.
Similarly to figure 18, figure 19 analyses which of the components of Logistics total return conspired to provide each region with their out or underperformance, relative to the national Logistics total return of 6.8% y/y.

- Rental value growth is again the largest factor in determining out or underperformance in the majority of regions, whilst yield impact is now having a larger effect on performance, shown by the larger grey bars, at the ten year level.
- Looking at London and the South East rental growth was above the national average, aiding overall total return; however, below par income return and yield impact meant that the overall total return was similar to the All Logistics total return at 6.8% y/y.
- Although the South West total return of 6.8% y/y was also similar to this, the underlying components were acting differently, with rental growth below the national Logistics average acting as a drag on returns, whilst income return was above the Logistics average, with a relative income return of 0.3% y/y.
- Once again Scotland saw the largest outperformance with a positive relative contribution to total return from rental value growth, yield impact and income return at 0.6% y/y, 0.5% y/y and 0.5% y/y respectively.
- The only other region with a higher relative contribution from movements in yields was Wales with a relative yield impact of 0.8% y/y; Wales also saw the highest outperformance of income return, with a relative income return of 0.7%, cementing its second place position for the highest performing Logistics region over ten years, just behind Scotland.

Table 4 summarises the rental and capital value growth of the Logistics assets over various time periods.

<table>
<thead>
<tr>
<th>Table 4: Regional rental value and capital growth, historical</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
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<tr>
<td>-------</td>
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<tr>
<td></td>
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<tr>
<td>London and the South East</td>
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<td>South West</td>
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<tr>
<td>Eastern</td>
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<tr>
<td>East Midlands</td>
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<td>West</td>
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<tr>
<td>Yorkshire &amp; Humber</td>
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<tr>
<td>North West</td>
</tr>
<tr>
<td>Scotland</td>
</tr>
<tr>
<td>Wales</td>
</tr>
<tr>
<td>All Logistics</td>
</tr>
</tbody>
</table>

Source: IPD Annual Index

4.3 INVESTMENT

- Figure 20 indicates where members of the IPD index were buying and selling assets during each year.
- There was a huge amount of investment in Logistics relative to the capital size of the sector during the late 1980s; this huge level of spending peaked at 32% in 1989.
- Spending on Logistics assets continued at levels far above that of the Standard Industrial assets throughout the 1990s.
- Interestingly, whilst net investment as a percentage of total capital value in Standard Industrial was positive in 2009, albeit at a modest 0.8%, the figure remained negative in the Logistics sector at -9.0% and was lower compared to the 2008 figure of -6.2%.

Figure 19: 10-year annualised relative total return breakdown (1999-2009) (%)

Figure 20: Historic net investment as a % of total capital value
5 CONCLUSION

The aim of this report has been to utilise the expert knowledge of BNP Paribas Real Estate to construct a sample of properties closer to what is actually happening in operational logistics and the supply chain. It is our view that this sample dramatically highlights the differences between Logistics and Standard Industrial properties; it is also interesting to see these differences appear in all UK regions and over time.

The key points of the index results are:

- In 2009, logistics total return was 8.5% – more than three times the return provided by standard industrials, which returned 2.6%.
- Logistics’ outperformance has continued into the first half of 2010 with six month returns of 7.2% compared to standard industrials’ 6.9%.
- At a regional level in 2010 Logistics has outperformed Standard Industrial assets in six of the nine major UK regions. The largest outperformance was seen in the North West, where the Logistics sector total return of 7.5% h/h was over 170 basis points higher than that of the Standard Industrial sector at 5.7% h/h.
- Over the history of the index, other than the 10 year annualised return, the Logistics sector has provided investors with stronger returns than the Standard Industrial sector. The largest outperformance by the Logistics sector comes over the last three years, where the total return of -6.8% y/y, whilst negative, was 83 basis points higher than the -7.7% y/y provided by the Standard Industrial Sector.
- The largest total returns come from investing over the full period of the 29 year index where Logistics is the top performer with a total return to investors of 10.6% y/y, whilst the Standard Industrial sector and the All Industrial sector returned similarly at 10.2% y/y.
- Over 10 years the largest outperformance between Logistics and Standard Industrial assets was seen in the West Midlands, where the Logistics return of 7.1% y/y was over 130 basis points higher than the 5.8% y/y returned by the Standard Industrial assets.

BNP Paribas Real Estate will be taking delivery of the Logistics Index on a quarterly basis from now on and this will be incorporated into the market commentary we provide and the professional advice we offer.
INTERNATIONAL COVERAGE FOR LOCAL SOLUTIONS.

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ALLIANCES

- Our locations
- Our alliances