Logistics stock falls to historic low in Midlands as development pipeline disappears

The level of logistics stock has fallen to an historic low in the Midlands, according to The BNP Paribas Real Estate Logistics Index, compiled in conjunction with IPD. With a non-existent development pipeline due to investors reluctant to build speculatively, UK distribution is facing a real challenge as retailers and suppliers are forced to consider alternatives.

The Logistics Index covers a sample of 527 Logistics properties across the UK, totaling £5.3bn. This amounts to 27% of the total IPD Industrial Segment, worth £19.6bn as of the end of 2010. The Index shows that returns for the Logistics sector, which have generally been higher than their Standard Industrial counterparts - at 1.1% and 0.5% respectively over five years, or -1.8% and -3.6% over three - have, in the last two years, increasingly mirrored those in the industrial sector, as investor sentiment and occupier demand in the sector has wavered.

Ranjit Gill, senior director at BNP Paribas Real Estate’s Birmingham office, said, “There has been an increasing polarisation in the market as the availability of brand new stock has rapidly dwindled and what we are now seeing is a large amount of older and smaller stock available in the Midlands, one of the core logistics regions. The total supply in the region totals 23.8 million sq ft - which is 16% of all UK stock - while the proportion of second hand is now up to 74% in the Midlands.

Gill continues: ‘Whilst many can see the demand for new space, there is unwillingness on the part of investors and developers to build speculatively in the current economic climate, further contributing to the lack of large stock. This lack of new product is leaving larger occupiers with little choice but to go down the design and build route.’

The report showed that availability of older, lower grade stock meant that returns were lower and there was negative rental growth across the UK, although the East Midlands showed the highest returns with 4% for pure logistics property, and a very minimal rental growth of 0.3% due to it being a preferred logistics location of choice.
This scenario was somewhat replicated in the wider industrial market, where the Midlands also saw its proportion of total UK take up has fallen from 33% to 26% due to a smaller amount of transactions as a result of limited stock. Supply of new stock was also limited and stands currently at 1.2 years, while the total figure of units over 250,000 sq ft has fallen to 3.7 m sq ft, down from 2009's peak of 5 million.

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