Q2 2014 LOGISTICS SECTOR TAKE-UP DOWN 20% DUE TO LACK OF SUPPLY

-Stronger investment market with £1.1bn transacted during Q2 2014-

Although the logistics sector is still experiencing high levels of demand, the lack of currently available Grade A units in prime locations, such as the Midlands and South East, has meant that H1 2014 take-up is down year-on-year by 20%, according to new research by BNP Paribas Real Estate, the leading property adviser.

Outside of the Midlands and South East, occupational demand has been focussed on urban logistics. These are smaller units on the edge of town centres that are able to fulfil the ‘last-mile’ delivery function for many of the 3PL’s.

The logistics investment market has seen an incredible start to the year, with £1.1bn transacted during Q2 into distribution warehouses alone, bringing the half year total to £2.1bn. Total returns reached 15.1% for 2013 and it’s anticipated that 2014 could see total returns top 17%.

Commenting on the market, Hugh White, BNP Paribas Real Estate’s head of national investment, said: “With this level of return, it’s easy to see why the logistics sector is attracting so much attention; both from UK based REIT’s and funds, as well as overseas investors. As yields further compress, investors continue to move up the risk curve to take on secondary assets and those with shorter dated income, subsequently helping drive investment volumes thus far in 2014, with twice as many deals done by end of June when compared to H1 2013. However, investor appetite is underpinned by the structural changes within consumer retailing, with more distribution space being required to service internet retailing to the detriment of ‘traditional’ retail accommodation.”

Robert Taylor, associate director within BNP Paribas Real Estate’s research team, commented: “Rental growth is now firmly back on the agenda for big sheds, after many years out in the wilderness. We are forecasting rental growth of 2.1% for 2014, with 2.8% growth in 2015 for distribution warehouses across the UK. On a regional basis this means rents could be pushed on towards £6 per sq ft in ‘Golden Triangle’ locations in the Midlands, whilst London and the South East continues as an anomaly to the rest of the country, with rents even on secondary space seemingly pushing on at a daily basis.”

The outlook for the remainder of the year is positive for the big shed logistics market. The continued drive from online and omni-channel retailers to reconfigure their supply chains will ensure that retailers and 3PL’s dominate the take-up numbers for 2014. UK manufacturing has
rebounded this year, despite a drop in May and further demand from the sector is anticipated, particularly the automobile and its supply chain, throughout the rest of the year.

“Whilst we may not see growth in take-up numbers, due to the lack of already built supply on the market, there is plenty of demand and occupiers will have to satisfy this down the D&B route. Developers continue to ready their land banks and the relatively short lead in time of six to nine months from planning approval through to completion means that most developers that are unwilling to take on the risk of speculative development don’t have to, especially for the largest sheds, where D&B is the occupiers’ preferred choice,” concluded BNP Paribas Real Estate’s head of industrial and logistics agency, Nick Waddington.

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About BNP Paribas Real Estate

BNP Paribas Real Estate, one of the leading international real estate providers, offers its clients a comprehensive range of services that span the entire real estate lifecycle: property development, transaction, consulting, valuation, property management and investment management. BNP Paribas Real Estate has local expertise on a global scale through its presence in 38 countries with more than 180 offices and 3,700 employees (17 wholly owned and 21 by its Alliance network that represents today more than 3,000 people). BNP Paribas Real Estate is a subsidiary of BNP Paribas.

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