At a Glance
NATIONAL BIG SHED LOGISTICS MARKET
April 2015

HEADLINES

- Following on from a momentous 2014, take-up within the logistics sector has shown no signs of relenting during the first three months of 2015—with c.8.5m sq ft of space taken by occupiers to date.
- An absolute chronic lack of supply, particularly for Grade A, is beginning to affect occupiers as design & build (D&B) deals are becoming commonplace for the largest occupiers and more speculatively developed opportunities are coming online.
- Prime yields continue on a downward trend and now stand at 4.5% (NIY).

TAKE-UP AND DEMAND

- Take-up within logistics has got off to a flyer in 2015, with just over 8.5m sq ft transacted to date, up 44% on the first three months of 2014.
- The retailers are once again leading the way with Lidl, Ocado, John Lewis, TK Maxx and Dunelm Group all signing up for new space over 500,000 sq ft this year.
- Retailers have accounted for 64% of take-up thus far and we anticipate seeing further demand as the sector continues to reconfigure and develop its supply chains to take advantage of the continued growth of online retailing.
- It is the North West that is leading the way regionally, with the Manchester market being very active to date.
- Trafford Park has seen nearly half a million sq ft of deals, with online fashion retailer Missguided signing for 268,000 sq ft at Grand Central and Bidvest taking the 205,000 sq ft former Biffa Materials Recycling Facility.

RENTS AND SUPPLY

- The supply picture across the country is gradually improving as more speculative development comes online and more developers and funds look to try and take a slice of the action.
- BNP Paribas Real Estate Research is currently monitoring over 4.8m sq ft of speculative schemes that are under construction, with Segro, Goodman, Prologis and Gazeley all currently underway and on-site with schemes across the country.
- The supply crunch has had an obvious effect on rents as the rental tone has been steadily increasing across the country, as evidenced on the chart overleaf.
- Headline rents in the Midlands now stand at £6.35 per sq ft after Syncreon took 127,500 sq ft at Minworth to service a JLR contract.
- We anticipate further rental growth across the market as competition for secondary kit heats up, whilst developers and investors will be keen to ensure their new wave of speculative developments are setting new rental levels.
INVESTMENT

- Investment volumes have reached £550m for the first three months of this year, which is a robust performance when compared to historical averages but is actually 76% down quarter-on-quarter and 48% down on Q1 2014.
- This serves to highlight just how astronomical investment volumes were in 2014 and also to flag that we are unlikely to see that peak climbed once more this year.
- £550m is still a solid performance and is 26% up on the quarterly average, once you exclude 2014. We do expect to see volumes still in-line with the 5-year average (2010-14), as shown opposite.
- Tritax Big Box REIT pulled off the biggest deal of the quarter when they agreed to forward fund Ocado’s new shed at CrossDox, Erith in South East London. Tritax paid £98.9m (5.25% NIY) for the shed which will be let without breaks to Ocado for 30 years from practical completion.
- Investors will continue to be attracted to logistics opportunities over the year ahead, underpinned by continued occupier demand, long lease lengths and the relative lack of obsolescence when compared to the other main sectors.
- Long let industrial units have continued to prove popular during the first few months of the year with the following assets either currently under offer or recently completed:
  - Brake Bros, Harlow - 25 years, 5 yearly annual RPI increases cap & collared at 0-5% - Tritax, £37.2m, 5%
  - John Lewis, Milton Keynes - 25 years, 5 yearly annual RPI increases cap & collared 1.5%-2.5%, Forward Funding by Standard Life Investments £85m, 4.2%
- Assets with open market reviews have also attracted strong demand as seen with the Aberdeen Asset Management purchase of the Geopost unit, Hinckley, let for 20 years off a reversionary rent for £19m and reflecting a 4.75% net initial yield.

Investors are looking to take advantage from the upswing in rents...

THE ANALYST’S OUTLOOK

Robert Taylor, Associate Director of Research, provides his outlook for 2015...

- Logistics real estate was once seen perhaps as the ‘ugly duckling’ of the property sector, but not anymore and the booming sub-sector that is UK logistics, just keeps rolling on.
- The occupational story of 2014 was the huge increase in take-up, with over 27m sq ft transacted and up an incredible 43% year on year, whilst the first three months of 2015 have seen no signs of a slowdown—despite the lack of available buildings on the market.
- We don’t foresee a slowdown in take-up this year for two reasons. Firstly, demand. Secondly, build times.
- There is still huge demand from occupiers as they seek to reorganise their supply chains, with really only a handful of occupiers currently benefitting from a fully-integrated omni-channel logistics network.
- Regarding build times, the recently completed John Lewis shed at Magna Park in Milton Keynes took just 24 weeks to construct. We anticipate seeing more design and build deals being done, particularly for occupiers willing to wait and financially able to take the plunge on a bespoke fit-out. The level of employment land committed to industrial and distribution uses is not as plentiful as it once was and this could hinder take-up beyond this year.
- Investment wise we once again anticipate a robust year, although topping a stellar 2014 is hard to imagine, but the current low interest rate environment within Europe will mean investors becoming more innovative to find value.
- Many investors are increasingly looking to invest in more permanent locations, areas that are expected to stand the test of time, such as the Golden Triangle and hubs close to London.

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