The industrial and logistics sectors have continued to be underpinned by sustained demand over the first half of 2017. Following on from the record-breaking take-up witnessed in 2016, H1 2017 demand for “Big Box” logistics has not disappointed, with 11.5 million sq ft of space acquired over the period. While this was a drop of 6% relative to the same period last year, it is worth putting these figures into context, given the unprecedented activity witnessed over the period 2015-2016. In fact, if we compare H1 2017 take-up performance with the long-term average, this shows a positive outperformance of +3.2%.

Although some occupiers may have rationalised their expansionary plans, due to the recent political and economic uncertainty, the latest UK PMI Industrial Index June 2017, saw manufacturers report expansions of both productions and new order volumes, albeit at a slower pace than witnessed over the preceding month. This has been reflected in the data with manufacturers accounting for the largest share of take-up, a change from the recent dominance of the retail sector. Nevertheless, retailers and 3PL providers have continued to be acquisitive and accounted for 27% and 33% of the total respectively.

In terms of take-up by region, the Midlands typically accounts for the largest share of national take-up and this has been no different over 2017 to date, with the percentage share increasing to 43.1% from the 36.7% recorded in 2016. The Automotive sector has been a key driver of this growth with Jaguar Land Rover continuing to expand their supply chain and facilities with the acquisition of the former 550,000 sq ft Tyrefort Dunlop warehouse in Minworth. Neovia also submitted a planning application at the beginning of the year to build 1.2 million sq ft of distribution warehousing in the outskirts of Desford to serve a JLR’s contract.

The race to acquire space amongst occupiers has remained the key theme so far this year. More than 42% of space taken up has been Design and Build or Pre-let, as occupiers struggle to find suitable available space. Although this is a drop compared to what was witnessed last year, land availability has continued to be a drag on growth in certain areas of the country.
In terms of national supply, the delivery of several speculative units has provided the market with further grade A space in key locations. However, since the second half of 2016 developers have somewhat reduced their exposure with fewer units scheduled to complete over the 2nd half of 2017 and the beginning of 2018.

Nevertheless, continued confidence in the sector signifies that developers and investors have continued to commit funds, with several announcements made recently. Key examples include Aberdeen AM £12 million agreement with Tungsten Properties to speculatively develop 128,600 sq ft unit in Lutterworth. In addition, DB Symmetry recently announced plans to speculatively build a 150,000 sq ft logistics unit in Doncaster.

Continued occupier demand and patchy supply nationally has meant rents have continued their upward trajectory. In fact latest figures from MSCI place both the Standard Industrial and Distribution Warehouses sectors as outperformers with 3.9% and 3.3% annual rental growth respectively. If we look at the latest quarterly performance, the overall picture does not change, but in fact shows increased momentum with Q2 2017 rental growth at 1.0% for Industrial, relative to 0.89% registered in Q1.

**UK INVESTMENT MARKET**

The UK investment market continued to post solid results with total investment volumes for the first half of the year relatively in line with what was recorded in H1 2016. Circa £26 billion was transacted across all sectors as overseas capital continues to be attracted by the defensive nature and value-add opportunities available in the UK.

However, increased uncertainty has meant that many investors have been cashing in their positions whilst selectively rebalancing their portfolios. The Industrial sector has been a perfect candidate to withstand short term volatility, as a result, defying any possible short-term negative impacts. H1 2017 saw nearly £3.9 billion transacted across Industrial and “Big Box” logistics units, up 18% year-on-year. This was driven by the increasing amount of capital deployed into the Logistics sector by investors, with the latter accounting for £2.7 billion, second only to the record breaking £3.8 billion witnessed over the second half of 2014.

"Investment in the Big Box logistics sector 2nd highest on record-£2.7 bn, up +110% on H1 16"
The overseas share of total investment in distribution warehouses has increased to 28% in H1 2017, up from the 19% recorded last year.

Our Prime yield for distribution warehouses has remained stable at 4.75%. However continued investor demand for smaller lot sized assets may lead this to sharpen over the latter end of the year, as investors increase their allocation to capitalise on the long-dated income component. In recent news Blackrock have agreed a forward commitment to buy the DHL distribution centre in Avonmouth at Central Park for c. £29 million at a 4.37% net initial yield (NIY). The 160,000 sq ft unit was recently pre-let on a 20 year term from practical completion, which is anticipated in January 2018. The lease benefits from five yearly rent reviews to higher of 2% per annum compounded or open market value.

Amongst other key players, Tritax Big Box REIT has continued to be highly acquisitive and the recent purchase of a 700,000 sq ft Morrison/Ocado distribution hub is only the latest of a string of investments. The unit at Birch Coppice Business Park, Tamworth, Birmingham has a 21 year unexpired lease term with fixed increases but let off a high rent, purchased for £92.33 million reflecting a 5.25% NIY.

According to the latest June 2017 capital growth index from MSCI, growth in the Industrial and Logistics sectors has continued unabated post-Brexit referendum. In annualised terms, the two sectors have enjoyed the strongest capital growth, outperforming their counterparts. The weight of money targeting Industrial and Logistics assets has resulted in an annual capital growth of 8.8% and 7% respectively. In terms of quarterly growth, this has accelerated in Q2, from 2.66% to 3.47% for Industrial assets and from 1.84% to 2.6% for the Logistics sector, highlighting the increased appetite for the two sub-sectors.

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<tr>
<th>H1 2017 investment in Industrial assets increased by 18% Y-o-Y</th>
<th>H1 2017 Investment in Distribution Warehouses more than doubled Y-o-Y</th>
<th>Overseas share in Distribution Warehouses accounted for 28%</th>
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<tr>
<td>+18%</td>
<td>+110%</td>
<td>28%</td>
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“H1 2017 investment in Industrial assets is up +18% Y-o-Y”

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