INDUSTRIAL & LOGISTICS REVIEW
Q3 2017

Investment volumes to end-Q3 reach £5.76bn, up 37.4% on 2016, as investors capitalise on a range of investment opportunities.

Logistics take-up (units > 100,000 sq ft) for Q3 2017 stood at 4.52m sq ft, significantly boosted by a 2.2m sq ft pre-let to Amazon at Central Park, Avonmouth. Despite such a substantial pre-let, this amounted to a fairly slow quarter, with take-up 23.6% below the 10-year quarterly average.

Looking at year to date metrics, take-up to Q3 stands at a relatively healthy 18.1m sq ft, although failing to match the exceptional levels recorded over 2016. Whilst this fall in activity may partially be the result of current economic uncertainty, supply restraints are also undoubtedly holding back activity.

At a sector level, retailers continue to dominate the demand profile, accounting for a 41% share of take-up for the year to end-Q3. As was the case in 2016, the expansionist strategies of a handful of retailers have driven a significant proportion of take-up, with acquisitions by Amazon and Lidl alone accounting for 4.80m sq ft take-up across eight deals to end-Q3.

"Manufacturing take-up to end Q3 stood at 5.11m sq ft, substantially above the 4.37m sq ft 10-year average"

Whilst the retail sector remains the most active, the manufacturing sector has recorded a rise in demand share over 2017. Manufacturing take-up to end Q3 stood at 5.11m sq ft, substantially above the 4.37m sq ft 10-year average, with key lettings by automotive giants Jaguar Land Rover and Aston Martin boosting demand.

Focusing on take-up by grade over 2017 to end-Q3, retailers have targeted a higher proportion of "New" or "Design and Build" space, with just 21% of space acquired being secondary stock. In contrast, the Manufacturing and Logistics sectors have acquired a higher proportion of secondary units (both standing at 54%). When comparing the metrics to 2016, proportionately all of these sectors have increased their acquisition of secondary stock compared to new, indicating that supply and land constraints in core locations are potentially impacting occupiers' decisions.

"Retailers have targeted a higher proportion of 'New' or 'Design and Build' space"

Construction has fallen back since the cycle peak in 2016, with just 4.6m sq ft scheduled to complete across 2017 and under 3m sq ft scheduled to come online in 2018 (based on schemes currently under construction). Development is predominantly focused on already established distribution parks, with little appetite for taking on development risk in new locations. The largest unit currently underway comprises Gazeley's Altitude unit at Magna Park, Milton Keynes. At 574,500 sq ft Altitude marks one of the largest speculatively developed units to be delivered post-

Take-up units > 100,000 sq ft to end-Q3 2017

18.1M SQ FT

MSCI rental growth for Distribution Warehouses 12 months to end September

4.3%

Current supply -36.5% on 10 year average at

31.9M SQ FT

recession, and at 21 metres high is also substantially taller than a standard logistics unit.

Slowing development activity is placing pressure on existing supply levels, particularly prime units in core locations. At Q3 2017, availability of units over 100,000 sq ft stood at 31.9m sq ft, 36.5% down on the 10 year average. Current years of supply (based on current availability divided by average annual take-up for the last five years) indicates a particularly constrained supply picture across all size bands. Supply levels are healthiest in the 100-199,000 sq ft size band, however even this provides just 2.25 years of supply, with under 1.5 years of supply available across the larger size bands.

Looking at market value rental growth, based on latest data from MSCI Distribution Warehouse rental growth for the year to end-September stood at 4.3%, far surpassing All Property at 1.8%. Focusing on industrial sector performance on a region by region basis (covering both Distribution Warehouse and Standard Industrial sectors), the London, South and Eastern areas have continued to outperform other areas of the UK.

UK INVESTMENT MARKET

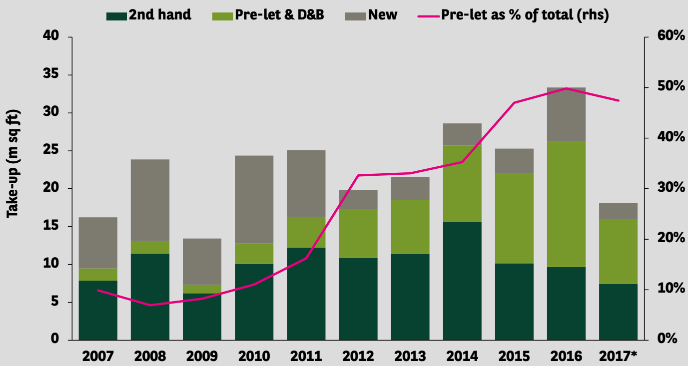
Whilst the occupier market has slowed following the exceptional activity recorded over 2016, the industrial investment market has continued to attract significant capital inflows. Quarterly investment for Q3 2017 stood at £1.84bn, 38.2% above the 10 year average. This pushes 2017 to end-Q3 investment volumes to £5.76bn, 37.4% ahead of the same period last year.

> **"Quarterly investment for Q3 2017 stood at £1.84bn, 38.2% above the 10 year average"**

Domestic investors remain the dominant investor group in the UK industrial market. However, despite only being at the Q3 stage, overseas investor activity in the industrial sector is currently second highest on record, surpassed only by 2014 where a number of significant capital portfolio sales helped propel overseas investment volumes to £3.4bn.

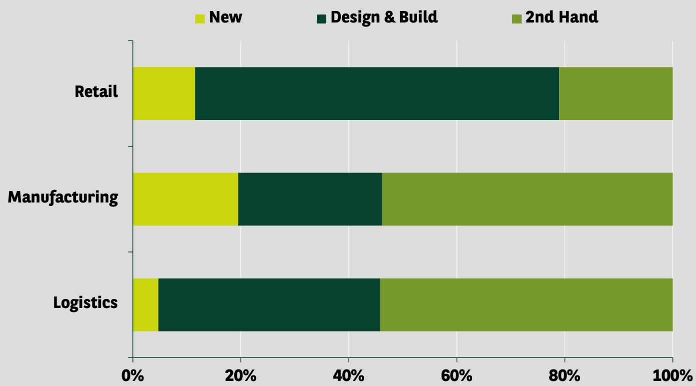
Focusing on Q3 investment, multi-let industrial investment has overtaken distribution warehouse investment for the first

FIGURE 1: ANNUAL TAKE-UP UNITS > 100K SQ FT



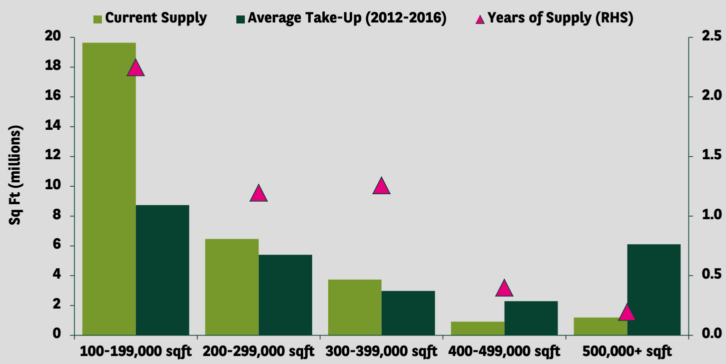
Source: BNPPRE, 2017* to end-Q3

FIGURE 2: 2017* SECTOR TAKE-UP BY GRADE (%)



Source: BNPPRE, 2017* to end-Q3

FIGURE 3: CURRENT YEARS OF SUPPLY BY SIZE BAND



Source: BNPPRE

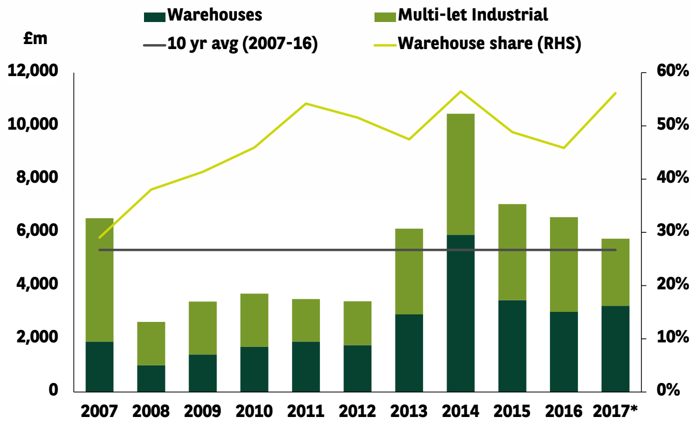
time since Q1 2016. American private equity firm Blackstone's £559m acquisition of a 140 asset light industrial portfolio from Brockton Capital played a significant part in boosting multi-let investment levels. Blackstone clearly has appetite for this type of product, the UK transaction followed their acquisition (in a joint venture with M7) of a €1.28bn light industrial portfolio of Dutch and German assets earlier in the year. Further signs of overseas interest in the sector came with South African investor Stenprop's entrance to the market in Q2 with the industrials.co.uk portfolio. Recent reports indicate the firm's intentions for further exposure to standard industrials with Stenprop reportedly refocusing their current £800m European portfolio to include more UK multi-let estates.

Investment is not, however, solely confined to existing assets. Tightening supply on the occupier side has led more investors to consider forward funding, or taking on development themselves. For example, this year saw the formation of Prologis UK Logistics Venture (UKLV), a joint venture by Prologis and CBRE Global Investment Partners, with the intent to pursue a develop-to-own strategy in core UK markets.

"At Q3, Multi-let investment has overtaken Distribution Warehouse investment for the first time since Q1 2016"

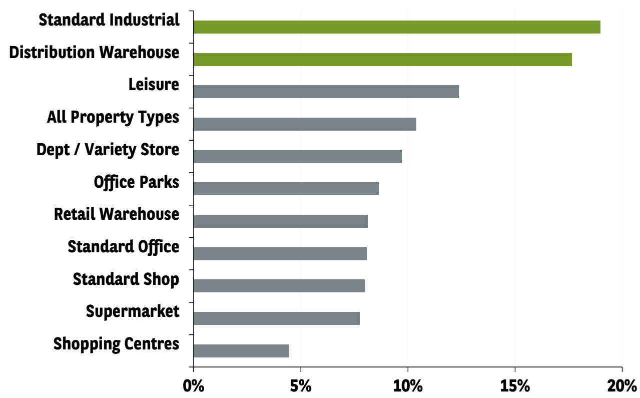
As has been the case for some time now the industrial sectors continue to significantly outperform other UK sectors in terms of total returns and capital growth indices. Latest data from industry benchmark MSCI, places Total Returns (12 months to end September) at 19.0% and 17.6% for Standard Industrial and Distribution Warehouses respectively, far surpassing All Property at 10.4%. This outperformance is primarily due to double-digit capital growth across the period, supported by steady income return levels.

FIGURE 4: ANNUAL INVESTMENT VOLUMES



Source: BNPPRE / Property Data, 2017* to end Q3

FIGURE 5: UK TOTAL RETURNS (12 MONTHS TO END-SEPT)



Source: MSCI

Q3 2017 industrial investment up 38.2% on 10-year average

+38.2%

2017 to end-Q3 industrial investment stands at

£5.76BN

MSCI Standard Industrial Total Returns for 12 months to end-September

19.0%

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A 360° vision

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