



INDUSTRIAL AND LOGISTICS REVIEW

Q4 2017

Leasing

- Take-up in 2017 reached 24.5 m sq ft*, 4.6% below the five-year annual average and 26.4% below the extraordinary levels of 2016.
- Supply has edged up slightly to 32.3 m sq ft, an increase of 5.2% on 2016. That said, this is 15.6% lower than the five-year annual average.
- Speculative development in 2017 saw 3.12 m sq ft of space completed, a 65.7% drop on the 9.10 m sq ft delivered over 2016.

Investment

- Total Industrial investment volumes topped £10.9 bn, up 80% on 2016. However, these volumes were skewed by China Investment Corporation's acquisition of Logikor, whose UK assets were valued at circa £2.39 bn. Investor appetite for Distribution Warehouses reached £6.9 bn, up 118% on 2016 levels.
- MSCI annualised monthly total returns (12 month to December 2017), show Standard Industrial and Distribution Warehouses outperformed all other sectors and registered 21.8% and 19.5% total returns respectively.



2017 annual take-up figures reached over

24.5M SQ FT



Supply stands at 32.3m sq ft. 15.6% below the 5-year annual average

-15.6%



2017 speculative completions reached

3.1M SQ FT



2017 Industrial investment volumes are up 80%** on 2016

£10.9bn



2017 Distribution Warehouses investment volumes are up 118% on 2016

£6.9bn



Over 2017 overseas investment accounted for 44.3% of total

44.3%

Notes: * Figures for occupational analysis throughout this report refer to units sized 100,000 sq ft and above / ** Includes China Investment Corporation's acquisition of Logikor, whose UK assets were valued at c. £2.39 bn.

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LEASING

Occupier activity in the industrial and logistics sector (for units 100,000 sq ft and above) continued to perform relatively well over 2017 with take-up topping 24.5 m sq ft. This is 4.6% below the five-year annual average and a drop of 26.4% on 2016 total take-up. The unprecedented 33.4 m sq ft take-up recorded in 2016 is an ambitious level to equal when compared to trend.

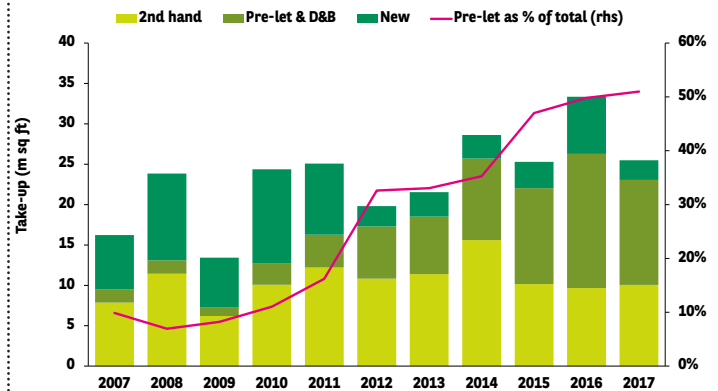
This relative slowdown can be attributed to several different factors; the Government, following a snap election in June last year, continued negotiating with Brussels over our future UK/EU trade ties. A chronic lack of supply and rising rents partially contributed to hinder occupier activity. Moreover, a natural contraction in activity by those players who dominated the market in 2016, have caused take-up to slow towards its mean. For instance, Amazon's 2.3 m sq ft taken in 2017 over 5 units is no match to the 7.8 m sq ft of total space taken during 2016.

If we look at take-up by region, the Midlands was by far the most preferred location with 33.4% of total take-up. However as occupiers struggle to find suitable units, its share shrunk from the 35.8% registered on average over the preceding five-year period. Conversely, the East of England's five year annual average share of total accounted for 1.2%, this increased to 8.1% in 2017 as occupiers were forced to venture further out to establish their operations.

Retailers continue to dominate and made up 39.3% of total take-up, with Amazon and Lidl accounting for most of this share. Amongst the biggest deals, Amazon will be building a three-storey 1.25 m sq ft warehouse on a plot at Severnside Distribution Land's logistics scheme in Avonmouth, whilst the German supermarket Lidl recently announced plans to build a 1 m sq ft distribution centre near Luton in the South East to support their growing store portfolio.

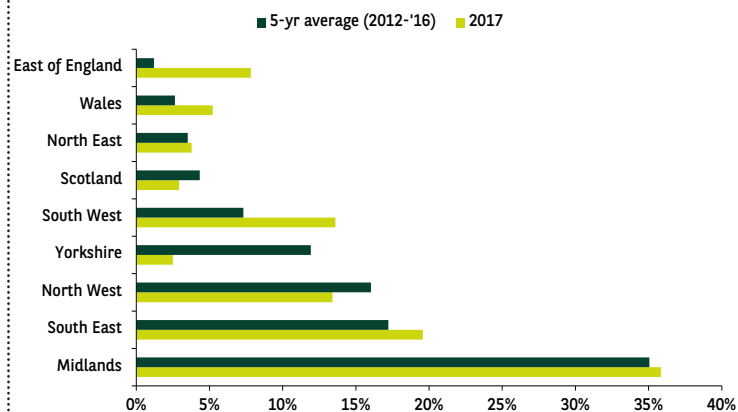
Supply for Distribution Warehouses, which also includes speculatively developed schemes due to come online by April 2018, has edged up slightly to 32.3 m sq ft, an increase of 5.2% on 2016 as the new speculative built warehouses become available. However availability is patchy, and 15.6% lower than the five-year annual average. Moreover, 2017 saw 3.1 m sq ft completed speculatively, a 65.7% drop on the 9.1 m sq ft delivered over 2016. Our analysis shows circa 3.74 m sq ft of space is currently under construction.

INDUSTRIAL & LOGISTICS ANNUAL TAKE-UP (MILLION SQ FT)



Source: BNPPRE

TAKE-UP BY REGIONAL SHARE - 2017 VS. 5-YR ANNUAL AVERAGE (%)



Source: BNPPRE

SUPPLY BY REGION (MILLION SQ FT)



Source: BNPPRE

INVESTMENT

The wider Industrial sector, including the Distribution Warehouses sub-sector, posted a stellar performance over 2017. Total investment volumes topped £10.9 bn, up 80% on 2016. However, these volumes were skewed by China Investment Corporation's acquisition of Logisor, whose UK assets were valued at circa £2.39 bn. According to Property Data this is the highest annual volume on record.

Volumes were supported by investor appetite for Distribution Warehouses assets, taking the annual turnover for the sub-sector to £6.9 bn. Consequently Distribution Warehouses' share of the total reached 64%. In terms of annual growth those figures constitute an increase of 118% on last year's volume.

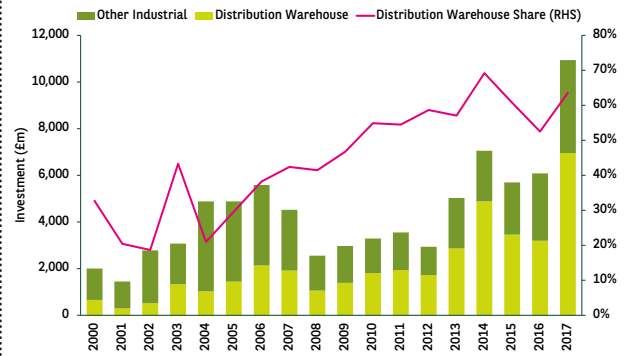
Strong investor appetite has continued to drive yields down and Blackrock UK Long Lease Fund's acquisition of a 103,969 sq ft warehouse for £16 m, at a 3.8% Net Initial Yield (NIY), is testimony to that. The unit is located at Apex Park in Bedford and had been let to Primaflow (part of the Travis Perkins Group) on a 20-year lease with five-yearly reviews to CPI, collared at 2.0% and capped at 4.0% pa., or market rent.

Looking at the investor profile, UK Institutions and Property Companies (PropCo) have accounted for a combined 44.0% of total industrial volumes. Overseas buyers alone accounted for 44.3%, a marginally higher share. This equates to an annual increase of 348% on the 2016 total. Similarly, although at a slower rate, UK institutions' annual invested volumes increased by 25.1% on 2016.

Focussing on the latest MSCI monthly annualised total returns (12-month to December 2017), Standard Industrial and Distribution Warehouses outperformed all of the other sectors and registered 21.8% and 19.5% respectively. The Standard Industrial sector performance was largely driven by "Inner South East", "London" and "Outer South East", which recorded annual total returns of 27.8%, 24.4% and 23.9% respectively.

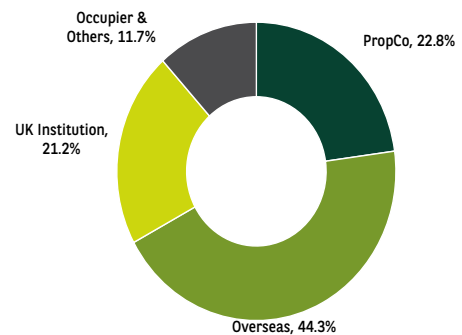
Our Prime yield for Distribution Warehouses, assuming a 15 year unexpired lease term, sharpened by 25bps in 2017 and now stands at 4.75% for unindexed income. On the other hand, 20-year plus investable stock is commanding a premium and investors are prepared to pay sub 4.00% for the right indexed income product.

INVESTMENT VOLUMES* (£M)



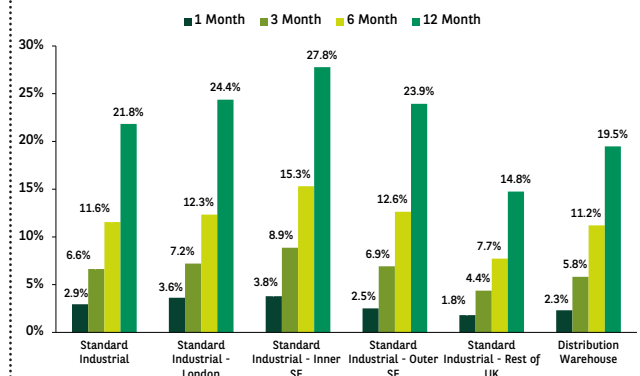
Source: Property Data - Note: * Includes confidential deals

INVESTMENT BY TYPE 2017 (SHARE OF TOTAL %)



Source: BNPPRE/ Property Data

TOTAL RETURNS 2017



Source: MSCI

RECENT KEY INVESTMENT DEALS

Address	Date	Tenant	Size (sq ft)	Rent pa (£ psf)	Unexpired Term (Breaks)	Purchaser	Price (NIY)
Logistics							
Swan Valley, Northampton	Jan-18	Eddie Stobart Logistics Ltd	172,928	£1,010,000 (£5.84 psf)	13.3 yrs	Olim	£19.9m (4.75%)
Sipson Road, Heathrow	Dec-17	National Express Ltd	16,838 2.7 acres	£450,000 (£27.47 psf)	20 yrs	CBREGI	£11.50m (3.66%)
Apex Business Park, Bedford	Dec-17	PrimaFlow Ltd	103,983	£649,863 (£6.25 psf)	20 yrs	BlackRock	£16.0m (3.80%)
Western Way, Wednesbury	Dec-17	Aalco Metals Ltd	220,897	£1,150,000 (£5.19 psf)	6.6 yrs	Merseyside Pension Fund	£21.00m (5.13%)
Westcoast Ltd, Milton Keynes	Nov-17	Westcoast Ltd	103,644	£642,000 (£6.19 psf)	8.7 yrs (3.7 yrs)	CBREGI	£12.78m (4.78%)
Island Road, Reading	Nov-17	DHL International (UK) Limited	115,225	£1,303,710 (*£11.25 psf) (**£11.75 psf)	*15 yrs-87% of income **18 months-13% of income	Equites	£29.0m (4.30%)
Great Bank Road, Bolton	Nov-17	Tesco PLC	275,155	£1,395,000 (£5.24 psf)	4 yrs	CCLA	£24.40m (5.35%)
DIRFT Logistics Park	Oct-17	Royal Mail Group Ltd	272,603	£2,600,000 (£9.54 psf)	6 yrs	Tritax	£78.5m (5.00%)
Apex Space, Milton Keynes	Oct-17	Apex Space Solutions Ltd	158,970	£715,400 (£4.50 psf)	25 yrs	CCLA	£15.05m (4.67%)
Industrial							
Sandown Industrial Park, Esher	Dec-17	12 units (9 tenants)	58,083	£551,932 (£9.50 psf)	6.1 yrs (2.2 yrs)	Elmbridge Borough Council	£14.07m (3.68%)
Mill Park, Milton Keynes	Dec-17	6 units (3 tenants)	147,134	£888,036 (£6.04 psf)	8.3 yrs (6 yrs)	M&G	£16.83m (4.94%)
Gateway 25, Weston Avenue, West Thurrock	Dec-17	5 units (5 tenants)	95,536	£668,500 (£7.00 psf)	4.4 yrs (3.5 yrs)	Fidelity	£14.70m (4.25%)
Focal Point, Crawley	Dec-17	2 units (2 tenants)	71,061	£579,042 (£8.15 psf)	6.9 yrs (4.7 yrs)	Valor	£17.20m (3.15%)
Griffin Centre, Feltham	Dec-17	8 units (7 tenants)	104,305	£925,547 (£8.87 psf)	5.2 yrs (4.3 yrs)	Orchard Street	£20.91m (4.13%)
The Birches, East Grinstead	Dec-17	28 units (22 tenants)	296,016	£2,323,274 (£7.85 psf)	7.8 yrs (3.7 yrs)	Royal London	£64.97m (4.66%)
Centro, Boundary Way, Hemel Hempstead	Dec-17	4 units (2 tenants)	61,776	£624,948 (£10.12 psf)	9.0 yrs (3.8 yrs)	DTZIM	£13.20m (4.40%)
Crown Business Centre, West Drayton	Oct-17	14 units (10 tenants)	69,214	£805,097 (£11.63 psf)	5 yrs (3 yrs)	Orchard Street	£19.34m (3.90%)
Odhams Trading Estate, Watford	Oct-17	7 units (6 tenants)	125,476	£125,476 (£8.64 psf)	6 yrs (3.8 yrs)	M&G	£25.65m (3.96%)

PRIME INDICATIVE YIELDS BY UNEXPIRED LEASE TERM

