Business expansion drives industrial and logistics take-up to highest Q1 on record

- Solid market fundamentals see investment volumes also hit record highs

Industrial and logistics take-up in Q1 2018 reached a record-breaking 9.8m sq ft, the highest Q1 on record, according to new research published by BNP Paribas Real Estate.

The buoyant demand was driven by business expansion across online retailing, parcel operators and third-party logistics providers, with the retail sector accounting for the greatest share of total take up at 45.6%.

Occupiers have been looking at ways to expand their logistics operations at highly-connected sites, as evidenced in the decision of XPO Logistics and Amazon to take a combined 1.88m sq ft at the SEGRO Logistics Park East Midlands Gateway site, next to East Midlands International Airport. Furthermore, United Parcel Service has recently been given the green light to build a 435,000 sq ft unit at an airside site at the same airport.

On the supply side, investor and developer confidence has remained strong, with a sustained increase in speculative development activity. Data from BNP Paribas Real Estate shows that six units, totalling 1.38m sq ft, have completed in Q1 2018, with a further 5.50m sq ft currently under construction across the UK.

Ben Wiley, Head of Industrial and Logistics Agency at BNP Paribas Real Estate said: “While we’ve seen a slowdown in take-up by manufacturers, in part driven by uncertainty around Brexit negotiations, these record-breaking figures show that demand for space from other sectors, particularly retail, shows no signs of abating.

“We’ve seen an unprecedented uptick in demand for Grade A units, with demand for units over 100,000 sq ft in particular bouncing back over the quarter.”
Investor demand for industrial assets surged in Q1 2018, with volumes of circa £1.96bn according to the latest figures from Property Data, 17.1% ahead of the £1.67bn transacted in the same period last year and a new record for Q1.

Low availability of prime industrial estates and logistics warehouse investments has led to further upward pressure in pricing. BMO Real Estate recently acquired a 77,226 sq ft distribution unit at Hatfield Business Park, let to Royal Mail for a remaining lease term certain of 9.4 years, for £17.5m at a net initial yield of 4.21%.

The sector’s solid fundamentals have further strengthened the attractiveness of well-located properties with relatively short leases as evidenced with the sale and leaseback of the Exertis warehouse at Warth Park, Raunds. The 245,000 sq ft warehouse was sold to NFU with a leaseback to Exertis of 2 years at a rent of £5.50psf, for £21.4m reflecting a 5.85% net initial yield.

Industrial estates with proximity to urban centres are also highly sought after as demonstrated by the recent sale of Mill River Trading Estate in Enfield. The property comprises five units with an average lease term of 2.7 years and was sold after a competitive bidding scenario for £18.1m at a net initial yield of 3.98%. There has been equally strong competition for estates in the regional markets where new benchmark yield levels have been set.

James Fairweather, Head of Industrial and Logistics Investment at BNP Paribas Real Estate said: “As we look at the remainder of the year, many investors continue to seek increased exposure to this sector offering secure income returns with genuine growth prospects. The latest figures from the MSCI All Industrial Index show a remarkable annual capital growth of 15.5% to the end of March 2018. Moving forward, the capital growth statistics will be hard to repeat so increased reliance will be placed on rental growth from solid income returns.”

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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.

With 5,100 employees, BNP Paribas Real Estate supports owners, leaseholders, investors and communities in their projects thanks to its local expertise across 36 countries (15 through its facilities and 21 through its Alliance network) in Europe, the Middle-East and Asia. BNP Paribas Real Estate generated €811m revenues in 2017. In 2017 BNP Paribas Real Estate continued its growth through the acquisition of Strutt & Parker, one of the UK’s largest independent property partnerships. BNP Paribas Real Estate is part of the BNP Paribas Group.

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