Real Estate for a changing world

INDUSTRIAL AND LOGISTICS REVIEW

Q1 2018

Leasing

- Q1 2018 take-up reached a record breaking 9.8 million sq ft*, the highest Q1 on record.
- Activity was driven by an unprecedented uptick in demand for Grade A units which accounted for a 75.4% of total take-up.
- Speculative development picked-up in Q1. Six units, totalling 1.38 million sq ft, completed over the first three months of the year with a further 26 units, totalling 5.50 million sq ft, currently under construction across the country.

Investment

- Mirroring the occupational market, investor appetite for industrial assets surged in Q1 2018. According to Property Data, volumes were propelled to £1.96 billion. This constitutes a record breaking Q1, 17.1% ahead of the £1.67 billion transacted in Q1 2017.
- MSCI annualised monthly capital growth (12 months to March 2018), shows All Industrial reach 15.5%, with South East Industrial at 19.6%.
- The solid fundamentals within the sector have further strengthened the case for increased attractiveness of well-located properties with relatively short leases.

Q1 2018 take-up performed a record breaking Q1*

9.8M SQ FT

Demand was driven by strong activity on Design & Build units, 75.4% share of total

75.4%

Speculative development picked-up in Q1 with five units completed. 5.5m sq ft of space is now under construction

5.5M SQ FT

Industrial investment volumes for Q1 2018 are up 17.1% on Q1 2017

£1.96bn

Source: Property Data

15.5% monthly anualised capital growth for All Industrial**

15.5%

Source: MSCi Monthly Index March 2018

** 12 months to March 2018

Overseas investment accounted for 22.3% of total

22.3%

Source: Property Data

Notes: * Figures for occupational analysis throughout this report refer to units sized 100,000 sq ft and above

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LEASING

Following on from a relatively slow Q4 2017, UK industrial and logistics occupier activity for units over 100,000 sq ft bounced back over the first three months of 2018. Q1 2018 take-up reached a record breaking 9.8 million sq ft, the highest Q1 on record.

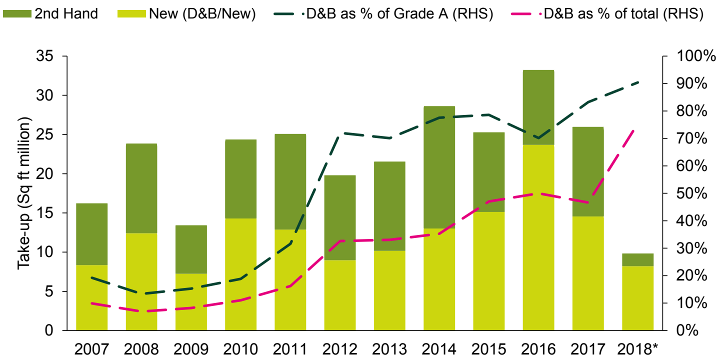
The strong activity was driven by an unprecedented uptick in demand for Grade A units. The share of take-up for design & build units was 75.4%, whilst take-up for units developed speculatively accounted for 8.0% and take-up for second-hand units constituted just 16.6% of the total.

Business expansion across online retailing, parcel operators and third-party logistics providers was the main cause of this buoyant demand. As a result, the retail sector accounted for the greatest share of total take-up (45.6%), followed by parcel operators and logistics providers (35.8%) and manufacturing (10.3%). Demand from manufacturers slowed in Q1 2018, in part due to the ever-present Brexit related uncertainty. This coincides with the Office for National Statistics (ONS) downgrading of quarterly GDP growth for Q4 2017 to 0.4% from a preliminary estimate of 0.5%. This 0.1 percentage point correction was in part reflecting a small downward revision to the estimated output of the production industries.

Occupiers have been looking at ways to expand their logistics operations at highly-connected sites. Some of the latest examples include XPO Logistics and Amazon taking a combined 1.88 million sq ft at the SEGRO Logistics Park East Midlands Gateway site, next to the East Midlands International Airport (EMA). The third-party logistics provider, on behalf of a contract with Nestlé, will be taking a 638,278 sq ft warehouse, whilst we understand Amazon have agreed a pre-let for a new multi-level 1.24 million sq ft distribution centre. The unit will have a footprint of approximately 522,000 sq ft. Furthermore, United Parcel Service (UPS) have recently got the green light to build a 435,000 sq ft unit at an airside site at the EMA.

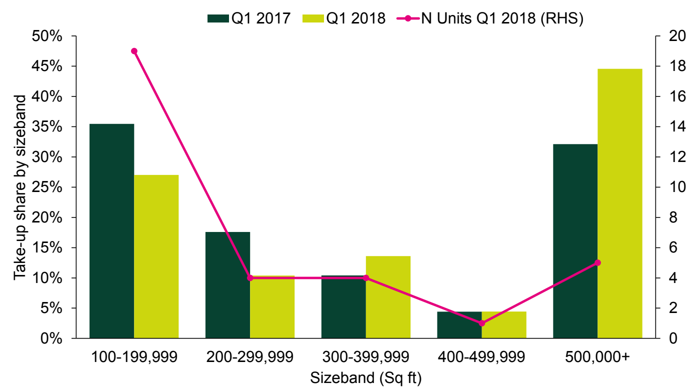
On the supply side, investor and developer confidence in the current market has remained consistently strong, with a sustained increase in speculative development activity. BNPPRE data shows that six units, totalling 1.38 million sq ft, completed in Q1 2018 with a further 26 units, totalling 5.50 million sq ft, currently under construction across the country.

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



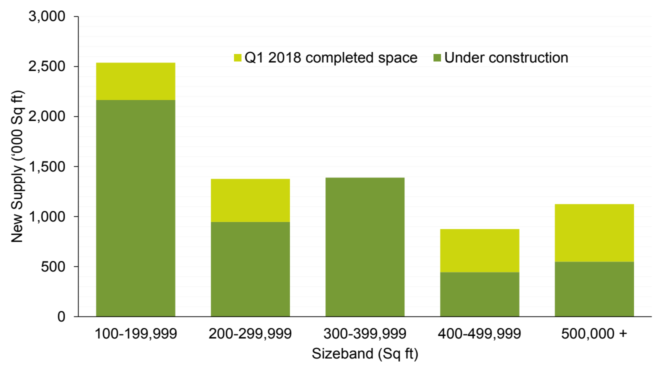
Source: BNPPRE / Note: 2018* As of end Q1

TAKE-UP BY SIZEBAND (%) & NO. of UNITS



Source: BNPPRE

2018 SPECULATIVE DEVELOPMENT PIPELINE & COMPLETED SPACE



Source: BNPPRE

INVESTMENT

Investor appetite for industrial assets surged in Q1 2018. According to the latest figures from Property Data, volumes were propelled to circa £1.96 billion, 17.1% ahead of the £1.67 billion transacted in the corresponding period last year. Mirroring the occupational market, volumes reached the highest Q1 on record.

Low availability of prime industrial estates and logistics warehouse investments has led to further upward pressure in pricing. An example of this is BMO Real Estate's acquisition of a 77,226 sq ft distribution unit, let to Royal Mail for a remaining lease term certain of 9.4 years, at Hatfield Business Park, for £17.5 million at a net initial yield (NIY) of 4.21%.

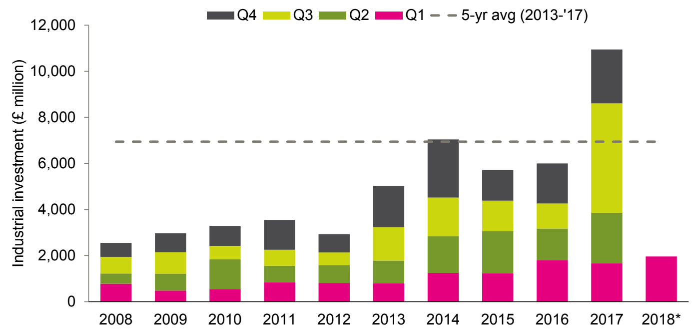
Whilst a slowdown in the purchase of 'big-ticket' distribution warehouses was witnessed over Q1 2018, a wide range of investors has displayed broad appetite towards risk. This was evidenced by Blackstone and M7's acquisition of the Powerhouse portfolio from InfraRed for £320 million at a 6.3% (NIY). The portfolio comprises 4.5 million sq ft of primarily light industrial units mostly located in the North West and the Midlands regions.

The sector's solid fundamentals have further strengthened the case for increased attractiveness of well-located properties with relatively short leases. This includes 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 remaining of 2.7 years and was sold after a competitive bidding scenario for £18.1m at a net initial yield of 3.98%.

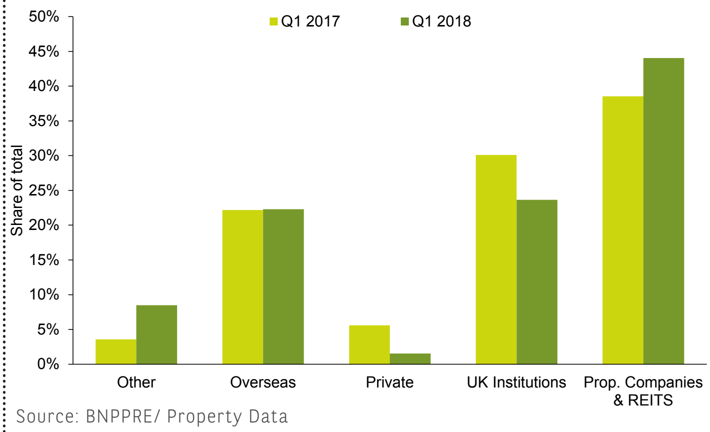
Looking ahead, the sector will continue to provide rental growth potential in key locations. The latest figures from the MSCI All Industrial Index showed a strong annual capital growth of 15.5% to the end of March 2018. Moving forward, the capital growth statistics will be hard to repeat so increased reliance will be placed on future rental growth from solid income returns.

INVESTMENT VOLUMES* (£M)



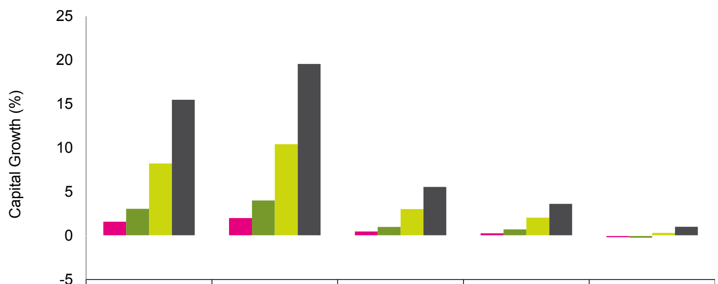
Source: Property Data / Note: 2018* As of end Q1

INVESTMENT BY TYPE Q1 2017 vs Q1 2018 (SHARE OF TOTAL %)



Source: BNPPRE/ Property Data

CAPITAL GROWTH (12 MONTHS TO END-MARCH 2018)



	Industrial (All)	Industrial (South East)	Property (All)	Office (All)	Retail (All)
1 Month	1.6	2.0	0.5	0.3	-0.2
3 Month	3.1	4.0	1.0	0.7	-0.2
6 Month	8.2	10.4	3.0	2.0	0.3
12 Month	15.5	19.6	5.6	3.6	1.0

Source: MSCI Monthly Index March 2018

RECENT KEY INVESTMENT DEALS

LOGISTICS

Property	Date	Tenant	Size (sq ft)	Rent pa (£ psf)	Unexpired Term (Breaks)	Purchaser	Price (NIY)
Sovereign Portfolio	Apr. 18	Let to 3 tenants (40% of income) + 12 month rental guarantee	455,432	£4,761,658 (£10.46)	5.55 yrs (4.87 yrs)	LaSalle IM	£97.78m (4.56%)
Magnus Portfolio	Mar. 18	Multiple	2,272,625	£10,272,677 (£4.52)	4.72 yrs	Blackstone / M7	£150m (6.41%)
Exertis, Raunds	Mar. 18	Exertis	245,497	£1,350,000 (£5.50)	2.00 yrs	NFU	£21.40m (5.85%)
Runnymede Focus, Egham	Mar. 18	World Duty Free Group	90,890	£892,642 (£9.82)	7.00 yrs	Confidential	£19.91m (4.20%)
Crown Packaging unit, Leicester	Mar. 18	Crown Packaging Manufacturing UK	185,494	£940,000 (£5.07)	10.00 yrs	First World Hybrid Real Estate	£17.1m (5.15%)
Hatfield Business Park, Hatfield	Feb. 18	Royal Mail Group Ltd	77,226	£786,000 (£8.85)	14.40 yrs (9.40 yrs)	BMO	£17.50m (4.21%)
Swan Valley, Northampton	Jan. 18	Eddie Stobart Logistics Ltd	172,928	£1,010,000 (£5.84)	13.30 yrs	OLIM	£19.90m (4.75%)

INDUSTRIAL ESTATES

Property	Date	No of Units (No Of Tenants)	Size (sq ft)	Rent pa (£ psf)	AWULT to Expiry (Breaks)	Purchaser	Price (NIY)
Doranda Way, Industrial Park, West Bromwich	Apr. 18	4 units (4 tenants)	152,311	£822,066 (£5.40)	4.1 yrs (3.4 yrs)	Harmsworth Pooled Property Unit Trust	£14.86m (5.18%)
Bermuda Portfolio (Farnham, Bedford, Witney)	Apr. 18	20 units (13 tenants)	154,693	£988,715 (£6.39)	5.5 yrs (2.6 yrs)	Henderson	£19.50m (4.75%)
Mill River Trading Estate, Enfield	Mar. 18	5 units (4 tenants)	93,786	£769,135 (£8.20)	3.91 yrs (2.69 yrs)	Capital Industrial	£18.10m (3.98%)
Martinbridge Industrial Estate, Enfield	Mar. 18	9 units (8 tenants)	280,015	£1,778,726 (£6.35)	9.16 yrs (7.87 yrs)	Westbrook	£53.73m (3.10%)
InfraRed UK Industrial Portfolio	Feb. 18	Multiple	4,500,000	£21,530,219 (£4.78)	4.77 yrs	Blackstone / M7	£320.00m (6.30%)
Quarry Wood Portfolio, Aylesford	Feb. 18	20 units (16 tenants)	191,216	£1,426,347 (£7.46)	5.80 yrs	Threadneedle	£26.00m (5.20%)
Units 1-3, 15 Havelock Terrace, Battersea	Feb. 18	2 units (2 tenants)	16,347	£292,476 (£17.90)	8.84 yrs (4.1 yrs)	Capital Industrial	£8.85m (3.20%)
Mill Park, Milton Keynes	Jan. 18	6 units (3 tenants)	147,134	£888,036 (£6.04)	8.30 yrs (6.0 yrs)	M&G	£16.82m (4.94%)