



INDUSTRIAL AND LOGISTICS REVIEW

Q2 2018

Leasing

- H1 2018 take-up for distribution warehouses* reached 16.2m sq ft, 8.8% ahead of the corresponding period last year.
- Demand was driven by the retail sector which took the lion's share with 50.4% of total take-up. Manufacturers were less active, accounting for 11.9% of total take-up, a significant decrease from their 31.7% share seen in H1 2017.
- Q2 2018 total national supply, which includes speculatively developed units due to complete by September this year, stood at 30.7m sq ft, 3.2% down on Q2 2017. This is in spite of H1 2018 witnessing the delivery of c. 2.7m sq ft of new space.

Investment

- Investment volumes reached £1.74 billion in Q2 2018, thus taking the total for the first half of 2018 to c. £3.8 billion. This is relatively in line with the corresponding period last year.
- Distribution Warehouses' capital growth, as reported by the Monthly MSCI Index (three months to June 2018), slowed to +2.5% from the +2.9% recorded for the three months to end-March 2018.
- On the other hand, capital growth for Standard Industrial assets accelerated from +3.2% (three months to end March 2018) to +4.5% (three months to end June 2018).



H1 2018 take-up reached 16.2m sq ft, up 8.8% on H1 2017.

16.2M SQ FT



Activity was driven by strong demand from retailers which accounted for 50.4% share of total.

50.4%



Speculatively developed pipeline delivered c. 2.7m sq ft of space in H1 2018.

2.7M SQ FT



Industrial investment volumes for H1 2018 topped £3.8 bn.

£3.8bn

Source: BNPPRE/Property Data



Standard Industrial's capital growth** accelerated and reached 4.5%.

4.5%

Source: MSCI Monthly Index June 2018

** 3 months to June 2018



UK Institutions' appetite for industrial assets continues unabated, the highest share since Q4 2015.

36.7%

Source: BNPPRE/Property Data

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

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LEASING

Q2 2018 leasing activity for large distribution warehouses* amounted to 6.9m sq ft, up 27% on the subdued numbers witnessed in Q2 2017. These figures take the total take-up for H1 2018 to 16.2m sq ft, 8.8% ahead of the corresponding period last year.

In terms of demand by sector in H1 2018, the retail sector took the lion's share with 50.4% of total take-up. Manufacturers were less active, accounting for 11.9% of total take-up, a significant decrease from their 31.7% H1 2017 share.

The need for increased automation from occupiers to bolster online and in-store fulfilment capacity has driven the re-structuring of supply chains. As a result, high quality distribution warehouses were highly sought after in H1 2018. Thus, demand for Design and Build (D&B) units reached a record breaking 64.2% share of total.

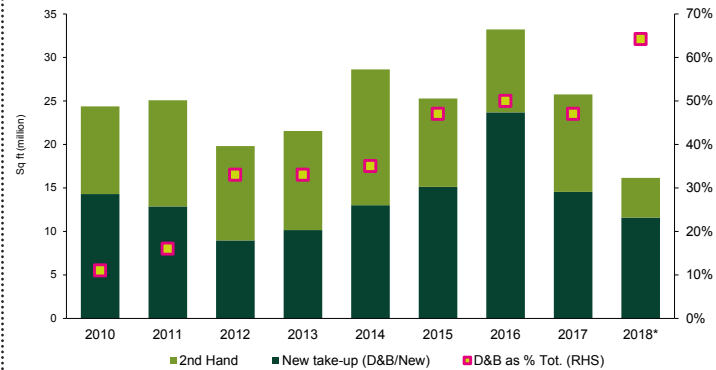
As a key example, Shop Direct agreed to pre-let a 500,000 sq ft D&B unit at East Midlands Gateway as it plans to consolidate operations from three sites in order to drive up efficiency through an automated fulfilment centre.

Amongst some of the largest deals, Amazon agreed a 20 year pre-let of c. 1.5m sq ft at Link 66, Darlington in the North East. The unit will have a ground floor area of c. 542,060 sq ft surmounted by two structural mezzanine floors. In addition, PrettyLittleThing signed a lease for 614,264 sq ft of refurbished space at Sheffield 615, the largest available existing warehouse nationally.

Q2 2018 total national supply, which includes speculatively developed units due to come online by September this year, stood at 30.7m sq ft, encouragingly 3.2% down on Q2 2017. This is in spite of H1 2018 witnessing the delivery of more than 2.7m sq ft of new space, with a further 7.5m sq ft under construction as of end June 2018.

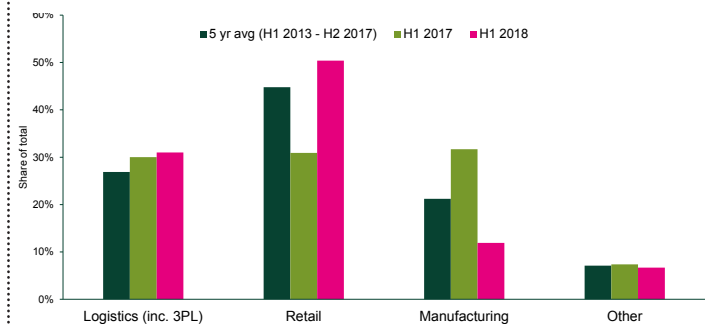
According to the latest Monthly MSCI index June 2018, Distribution Warehouse's rental growth (three-month to June 2018) accelerated to +0.9% from +0.7% (three-month to March 2018). Similarly, and for the same time period, rental growth for Standard Industrial gained momentum to 1.3% from 1.1%, as occupier competition for space continued to feed through.

FIG. NO 1 - INDUSTRIAL & LOGISTICS ANNUAL TAKE-UP (MILLION SQ FT)



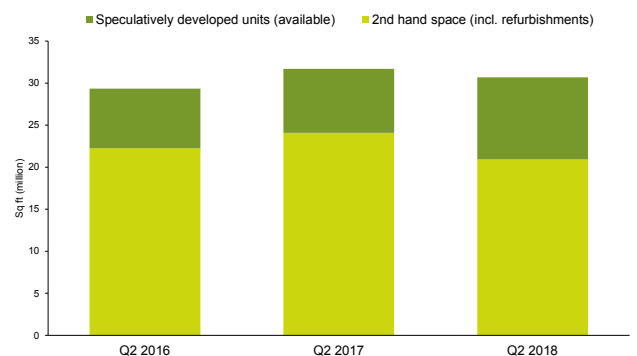
Source: BNPPRE / Note: 2018* As of end June 2018

FIG. NO 2 - TAKE-UP BY BUSINESS TYPE (% share)



Source: BNPPRE

FIG. NO 3 - SUPPLY PROFILE - NEW BUILD AND SECOND HAND SPACE



Source: BNPPRE

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

INVESTMENT

The industrial market delivered a strong performance for the three-month period to end June 2018. According to the latest MSCI Monthly Index June 2018, Standard Industrial assets witnessed capital growth of 4.5%.

In terms of volumes, total investment reached £1.74 billion in Q2 2018, thus taking the total for the first half of 2018 to c. £3.8 billion, relatively in line with the corresponding period last year.

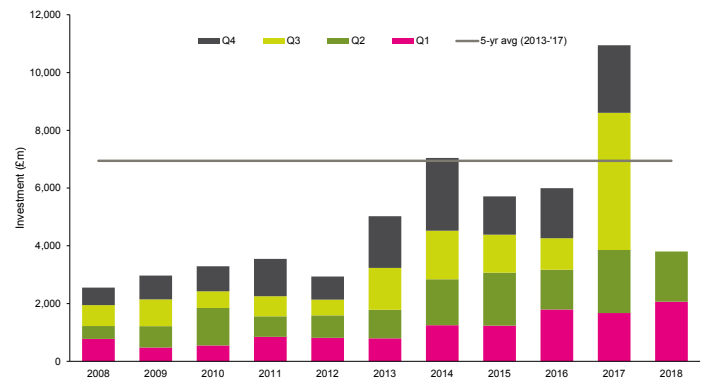
Investment demand remained buoyant in Q2 2018, particularly from UK Institutions whose share of total investment reached 36.7%, the highest share since Q4 2015. Similarly, REITs and Property Companies accounted for a combined 26.8%. A key example of the latter was London Metric PLC's purchase of the Platinum Portfolio for £55.0m at a blended Net Initial Yield (NIY) of 4.4% and a reversionary yield of 5.3%.

Reversion and rental growth prospects factored in by investors for industrial properties continue to be a key determinant of pricing, especially for assets located in London and the South East. This was also demonstrated in Q2 2018 when Valor Real Estate acquired three logistics assets at Crossways Business Park in Dartford, for £22.75m at a NIY of 4.35%. The units are let to three different tenants with a WAULT of 6.8 years at the time the transaction completed. Orchard Street also fought off competition to acquire the Zenith Industrial Estate in Basildon for £36.2m NIY of 3.85%. The estate comprises of nine units with a WAULT of 8.14 years.

The current buoyant state of the market continues to exert downward pressure on NIYs. This is evidenced in Figure 5 where strong yield compression, over the 12-month period to June 2018, is witnessed across the board as competition for the sector has not faltered.

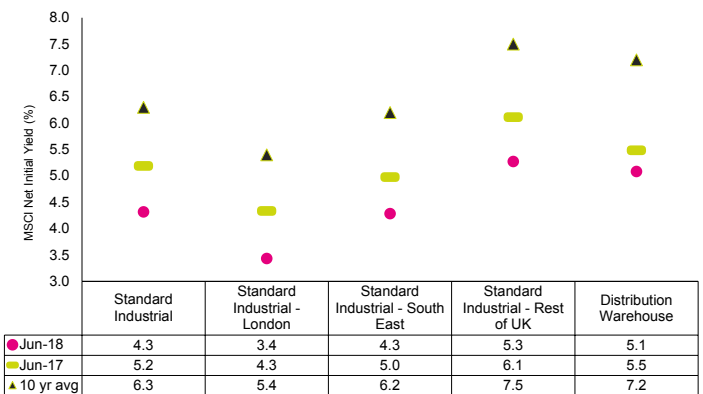
Distribution Warehouses capital growth, as reported by the Monthly MSCI Index (three months to June 2018), slowed to +2.5% from the +2.9% recorded for the three months to end-March 2018. On the other hand, capital growth for Standard Industrial accelerated from +3.2% (three months to end-March 2018) to +4.5% (three months to end-June 2018).

FIG. NO 4 - INVESTMENT VOLUMES (£ Million)



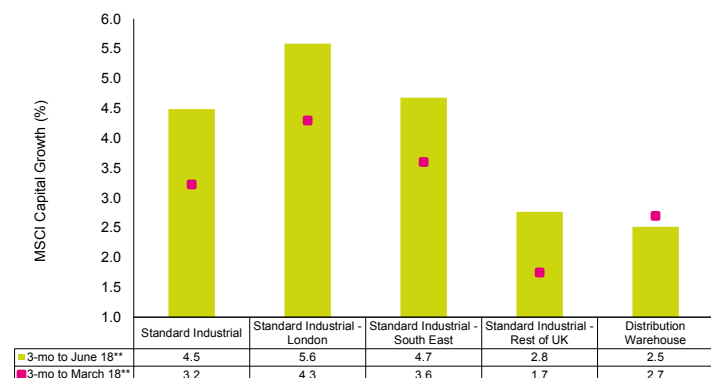
Source: Property Data / Note: Data compiled as of 17th July 2018

FIG. NO 5 - MSCI NET INITIAL YIELDS (%)



Source: MSCI Monthly Index June 2018

FIG. NO 6 - CAPITAL GROWTH (3-MONTH PERIOD TO END-MARCH 2018/JUNE 2018)



Source: MSCI Monthly Index June 2018

LOGISTICS

Property	Date	Tenant	Size (sq ft)	Rent pa (£ psf)	Unexpired Term (Breaks)	Purchaser	Price (NIY)
MK95, Michigan Drive, Tongwell, Milton Keynes	Jun. 18	Royal Mail	112,258	£357,960 (£3.19)	10.10 yrs	London Metric	£12.00m (2.80%)
Derby Commercial Park, Derby	Jun. 18	CH Robinson + Rental Guarantee	101,901	£626,512 (£6.15)	7.95 yrs	Private investor	£11.53m (5.09%)
Units 30, 40 & 60 Crossway Business Park, Dartford	May 18	3 units (3 tenants)	133,688	£1,056,208 (£7.90)	6.80 yrs	Valor RE	£22.75m (4.35%)
Talke, 16 Pit Lane, Stoke	May 18	Centaur Services Ltd	181,505	£855,475 (£4.71)	10.00 yrs	Clearbell Capital	£12.40m (6.46%)
Pebble Portfolio (6 units)	May 18	Multiple tenants	302,365	£1,402,185 (£4.64)	5.60 yrs (4.20 yrs)	M&G	£22.00m (5.97%)
Spire Healthcare, Worcester Six	Apr. 18	Spire Healthcare Ltd	72,500	£438,625 (£6.05)	20.00 yrs	KFIM	£9.58m (4.29%)
Units A & B Grandstand, Warrington	Apr. 18	Ceva Freight Ltd and Topgrade Sportswear Ltd	80,697	£465,000 (£5.76)	5.50 yrs (3.20 yrs)	CCLA	£8.90m (4.90%)

INDUSTRIAL ESTATES

Property	Date	No of Units (No Of Tenants)	Size (sq ft)	Rent pa (£ psf)	AWULT to Expiry (Breaks)	Purchaser	Price (NIY)
Zenith Industrial Estate, Basildon	Jun. 18	9 units (7 tenants)	197,476	£1,486,786 (£7.53)	8.75 yrs (8.14 yrs)	Orchard Street IM	£36.20m (3.85%)
The Gate Centre, Brentford	Jun. 18	11 units (8 tenants)	82,419	£1,153,002 (£12.42)	7.90 yrs (5.50 yrs)	M&G	£34.34m (3.15%)
Units 1-9 Trade City, Frimley	Jun. 18	9 units (7 tenants)	56,621	£616,316 (£10.88)	5.90 yrs	Surrey Heath Council	£12.23m (4.75%)
Kingsditch Trade Park, Cheltenham	Jun. 18	28 units (24 tenants)	137,942	£1,161,667 (£8.42)	6.50 yrs (3.75 yrs)	L&G	£20.52m (5.30%)
Orbital One Trading Estate, Dartford	May 18	11 units (7 tenants)	67,018	£567,217 (£8.46)	6.10 yrs (4.10 yrs)	M&G	£12.80m (4.15%)
Units 1-5, Access 4:20, Aylesford	May 18	4 units (4 tenants)	47,856	£390,746 (£8.17)	9.30 yrs	Portsmouth City Council	£8.325m (4.25%)
Olympic Court, Salford	Apr. 18	5 units (2 tenants)	108,639	£532,178 (£4.90)	7.27 yrs (5.88 yrs)	Portsmouth City Council	£10.88m (4.59%)

PRIME INDICATIVE YIELDS - LOGISTICS

Lease Length	Prime Yields*
25 years	4.00%
20 years	4.25%
15 years	4.50%
10 years	4.75%
5 years	5.00%

Notes:

* Assuming an investment lot size in the region of £15m, let to a blue chip covenant, at a market rent on an institutional lease term rent with five yearly upward only rent reviews. Not subject to indexation./ ** Assuming a freehold industrial estate of institutional quality, with an average weighted unexpired lease term of circa five years.

PRIME INDICATIVE YIELDS - INDUSTRIAL ESTATES

Geography	Prime Yields**
Greater London	3.75%
South East	4.25%
National	4.75%

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