



INDUSTRIAL AND LOGISTICS REVIEW

Q3 2018

Leasing

- Q1-Q3 2018 take-up for distribution warehouses* reached 22.2m sq ft, 13.2% ahead of the corresponding period last year.
- In terms of regional demand, the Midlands saw the largest share nationally, accounting for 35.4% of the total take-up, followed by the South East at 19.4% and the North West at 16.6%.
- Speculative completions are set to surpass this cycle's peak. It is anticipated that newly completed units for the full year will total c. 9.1m sq ft. However, supply remains relatively low, exerting upward pressure on rents.

Investment

- Investment volumes reached c. £1.8bn in Q3 2018, 4% down on the preceding quarter. This was 19% ahead of the 10-year Q3 average and represented circa 11% of the total spending witnessed across all commercial real estate sectors in Q3 2018.
- Industrial and logistics assets in London and the South East continue to outperform, particularly multi-tenanted estates, which offer a diversified income profile with robust rental growth projections.
- Investor appetite drove MSCI capital growth for 'All Industrial' to 15.1% for the 12-month period to end-September 2018.



Q1-Q3 2018 take-up reached 22.2m sq ft, up 13.2% on the corresponding period last year.

22.2m sq ft



MSCI 'All Industrial' rental growth** reached 4.3%.

4.3%



Speculatively developed units could reach 9.1m sq ft by the end of the year, marginally surpassing this cycle's high saw in 2016.

9.1m sq ft



Industrial investment volumes for Q3 2018 reached c. £1.8bn, 4% down q/q.

£1.8bn

Source: BNPPRE/Property Data



MSCI 'All Industrial' capital growth** reached 15.1%.

15.1%

Source: MSCI Monthly Index September 2018
** 12 months to end-September 2018



Overseas investment in the wider sector accounted for c. 20.9% of total.

20.9%

Source: 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

In Q3 2018 leasing activity for large distribution warehouses* amounted to 4.6m sq ft, taking the total to end-Q3 2018 to 22.2m sq ft, 13.2% ahead of the corresponding period last year. This extraordinary run could potentially push the year-end total close to the 30m sq ft mark.

In terms of regional demand to end-Q3, the Midlands saw the largest share nationally, accounting for 35.4% of the total take-up, followed by the South East at 19.4% and the North West at 16.6%. Activity was more evenly spread nationally with Yorkshire witnessing the biggest uptick from a 3.3% share for the period Q1-Q3 2017 to 13.2% this year to end Q3 2018.

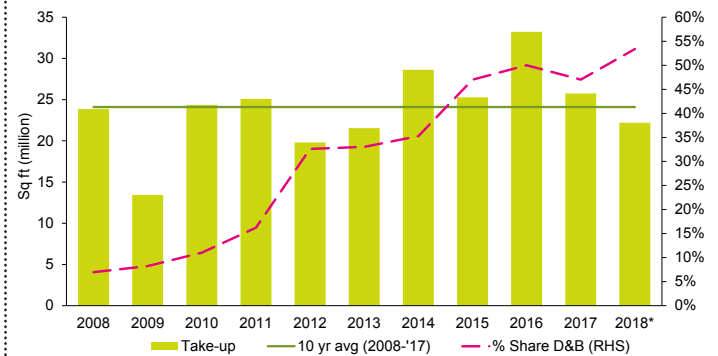
Occupier activity has meant existing supply remains at a relatively low level which could potentially hamper activity next year. However, speculative completions are set to surpass this cycle's peak, with c. 3.6m sq ft under construction and due to complete by the end of the year. Taking into account that more than 5.5m sq ft was delivered by end-September 2018, it is anticipated that newly completed units for the full year will total c. 9.1m sq ft, representing a high for this cycle.

Demand for good quality logistics units continued and our data shows that more than c. 3.0m sq ft of speculatively developed logistics units was let to end-September 2018. Furthermore, increased demand for larger units was a dominant factor, resulting in an uptick of activity for units sized between 300,000 sq ft to 399,999 sq ft. 13 units were taken up relative to the five witnessed over Q1-Q3 2017.

Occupier desire for high-quality, well-located stock has resulted in rental benchmarks being set on recently developed units. A recent example is the letting of a newly-delivered distribution warehouse at Horizon38, Bristol, where automotive parts supplier Apec Braking signed a 15-year lease on 115,500 sq ft at a reported new record headline rent in the area, for units greater than 100,000 sq ft, of £7.25 psf.

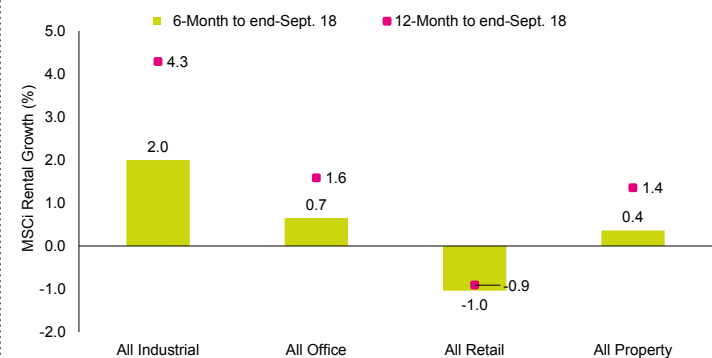
Looking at future trends, investments in major infrastructure hubs will unlock opportunities similar to those witnessed around the Port of Liverpool. Major port expansions are planned at Tilbury 2 and at Hutchison Ports' Port of Felixstowe.

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



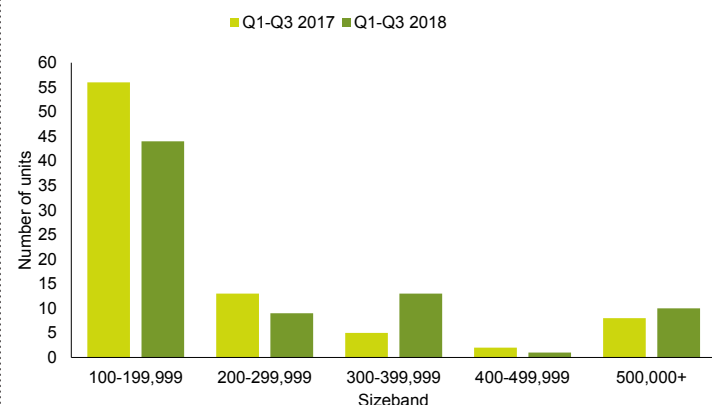
Source: BNPPRE / Note: 2018* As of end September 2018

FIG. NO 2 - MSCI RENTAL GROWTH (%)



Source: MSCI Monthly Digest - September 2018

FIG. NO 3 - TAKE-UP BY SIZE (NO. OF UNITS)



Source: BNPPRE

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

INVESTMENT

Investor demand for industrial and logistics assets remained buoyant in Q3 2018. Whilst investor appetite drove MSCI capital growth for 'All Industrial' to 15.1% for the 12-month period to end-September 2018, location, income length and diversification of income profile, have all been key determinants of performance.

Investment volumes reached c. £1.8bn in Q3 2018, c.4% down on the preceding quarter. This was 19% ahead of the 10-year Q3 average and represented circa 11% of the total spending witnessed across all commercial real estate sectors in Q3 2018.

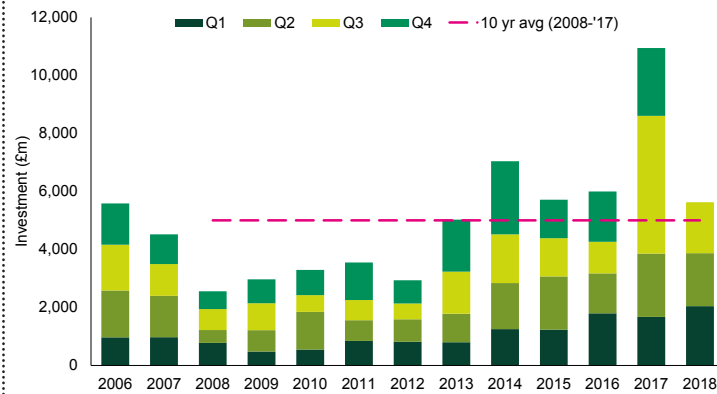
Amongst some of the key deals, NFU Mutual Insurance acquired the currently under construction KitchenCraft unit at the Hub in Birmingham for £33.7m (4.41% NIY). Tritax Big Box REIT are forward funding a low density building with a gross internal floor area of c.361,000 sq ft at Haydock, St Helens for c. £68.7m. Tritax are also forward funding a logistics unit at Link 66 in Darlington for c. £120.7m, at a NIY of 5.0%. The unit will have a ground floor area of c. 542,000 sq ft plus two structural mezzanine floors. Upon completion the two units will be let to Amazon on a 15-year lease and 20-year lease respectively.

Overseas appetite for the wider sector remained strong accounting for c. 21% of total industrial and logistics investment, although figures were skewed by the Singapore listed Ascendas REIT's acquisition of the £207m Owl portfolio from Oxenwood Real Estate.

Historically investors required a yield premium for the acquisition of industrial assets relative to other key sectors such as retail and offices, however this is far from true these days as the eCommerce revolution contributed to the growth of the sector's appeal. This, in our opinion, has acted as a key catalyst for this structural shift in investor appetite for the sector.

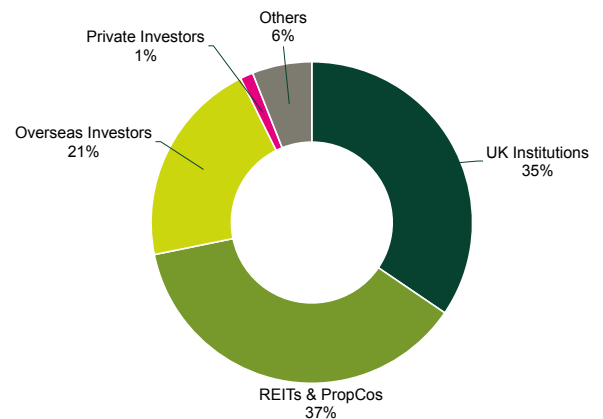
Industrial and logistics assets in London and the South East continue to outperform national averages, particularly multi-tenanted estates, which offer a diversified income profile with robust rental growth projections. Key examples are DTZ Investors purchasing, for £11.40m at a NIY of 4.48%, a multi-let estate in Deacon Way, Reading. Hermes Investment Trust's acquisition of Nexus Park in Newbury for £27.50m at a NIY of 4.83%, and Capital Industrial's acquisition of 1-5, 214 Purley Way in Croydon, for £7.85m, at a NIY of 3.26%.

FIG. NO 4 - INVESTMENT VOLUMES (£ Million)



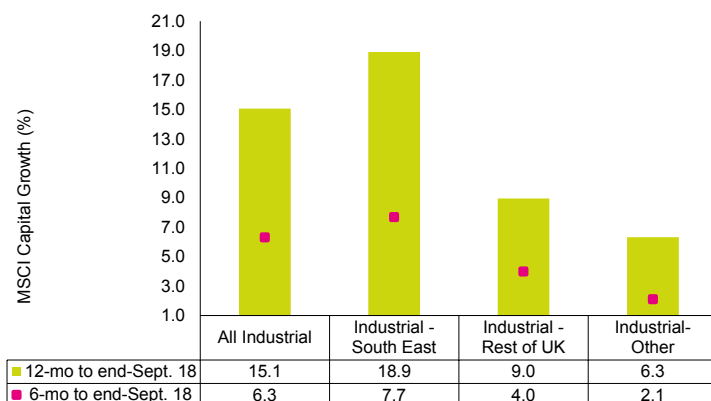
Source: Property Data / Note: Data compiled as of 18th September 2018

FIG. NO 5 - INVESTOR TYPE-SHARE (%)



Source: Property Data

FIG. NO 6 - MSCI CAPITAL GROWTH (%)



Source: MSCI Monthly Digest - September 2018

RECENT KEY INVESTMENT DEALS

LOGISTICS

Property	Date	Tenant	Size (sq ft)	Rent pa (£ psf)	Unexpired Term (Breaks)	Purchaser	Price (NIY)
Haydock, St Helens	Sept. 18	Amazon	361,062	£3,588,956 (£9.94)	15.00 yrs	Tritax Big Box REIT	£68.70m (4.90%)
MITRE Portfolio (5 properties)	Aug. 18	Multiple tenants	113,778	£824,173 (£7.24)	7.60 yrs (6.30 yrs)	Leftfield Capital	£17.90m (4.31%)
Eastern Avenue, West Thurrock	Aug. 18	Wincanton Trans European Ltd	156,958	£1,178,000 (£7.51)	0.75 yrs	Valor RE	£21.13m (5.22%)
Waxlow Road, Park Royal	Aug. 18	AFM Group Limited	42,889	£462,000 (£10.77)	6.00 yrs	OUEM	£14.65m (2.95%)
The Hub, Birmingham	Aug. 18	Lifetime Brands Europe Ltd	250,450	£1,586,970 (£6.25)	15.60 yrs	NFU Mutual Insurance	£33.70m (4.41%)
Flex Meadow, Harlow	Aug. 18	Christian Salvesen	76,272	£522,000 (£6.84)	2.90 yrs	BMO	£11.30m (4.33%)
Owl Portfolio	Jul. 18	Multiple tenants	2,611,458	£11,218,390 (£4.30)	15.00 yrs (11.75 yrs)	Ascendas REIT	£207.00m (5.07%)

INDUSTRIAL ESTATES

Property	Date	No of Units (No Of Tenants)	Size (sq ft)	Rent pa (£ psf)	AWULT to Expiry (Breaks)	Purchaser	Price (NIY)
Deacon Way, Reading	Sept. 18	8 units (6 tenants)	72,910	£545,916 (£7.50)	7.60 yrs (4.80 yrs)	DTZ Investors	£11.40m (4.48%)
Greens Industrial Estate, Wakefield	Aug. 18	21 units (16 tenants)	345,006	£1,273,440 (£3.67)	4.50 yrs (2.53 yrs)	Paloma Capital	£13.97m (8.50%)
1-5, 214 Purley Way, Croydon	Aug. 18	5 units (2 tenants)	36,460	£273,059 (£7.49)	4.40 yrs	Capital Industrial	£7.85m (3.26%)
Birchmere Business Park, Thamesmead	Aug. 18	4 units (3 tenants)	91,511	£479,018 (£5.23)	8.50 yrs (6.80 yrs)	M&G	£12.25m (3.66%)
Nexus Park, Newbury	Jul. 18	4 units (7 tenants)	189,540	£1,408,763 (£7.43)	13.50 yrs	Hermes REIM	£27.50m (4.83%)
The Medway Estates, Rochester	Jul. 18	37 units (35 tenants)	103,936	£831,196 (£8.00)	4.81 yrs (2.95 yrs)	M7 RE	£14.00m (5.55%)

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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