



**'BIG SHED'
LOGISTICS
OCCUPIER &
INVESTMENT
MARKET
REVIEW**

10 THINGS YOU NEED TO KNOW ABOUT BIG BOX LOGISTICS* IN 2019

*Units over 100,000 sq ft

- 1 Take-up hit 31m sq ft in 2018
- 2 35% above the 10-year average
- 3 The two biggest lettings were both to Amazon – 1.5m in Darlington and 2m sq ft in Durham
- 4 Brexit stockpiling has had limited effect on supply to date
- 5 8m sq ft currently under construction, still below the 2005-2008 UK average
- 6 Supply remains limited, particularly in the upper size brackets over 300,000 sq ft
- 7 £8bn of investments were traded surpassing the 5 year average of £6.6bn
- 8 Tritax Big Box REIT were the biggest spenders of 2018, at £647m on 8 assets
- 9 Net Initial Yields are 4.3% end 2018, versus previous low of 5.2% in 2007, reflecting the rental growth prospects
- 10 DTRE transacted more than any other advisor in the sector at £2.5bn

NATIONAL LOGISTICS OCCUPIER MARKET

2018 rounded off yet another successful year for the logistics ‘Big Shed’ occupier market (100,000 sq ft +), with 31m sq ft of take-up, resulting in a 30% year-on-year increase and defying the continuing political uncertainty created by Brexit.

‘Structural changes’ within logistics are often talked about but we truly have entered a new paradigm for ‘Sheds’. Average take-up over the last three years (2016-18) for Big Sheds has reached c. 29m sq ft, over one-third ahead of the average demand we witnessed between 2007 and 2015 (see Fig 1).

The largest lettings and single asset investment deals of the year saw DTRE advising Tritax Big Box REIT on two forward fundings of new Amazon units in the North East. Firstly, in Darlington Amazon agreed a pre-let of c. 1.5m sq ft and then secondly at Integra 61 in Durham a 2m sq ft pre-let, both on 20-year leases. In addition, DTRE advised LogiCor in disposing of Sheffield 615 to PrettyLittleThing, who via their 3PL, Clipper Logistics, signed a lease for 614,264 sq ft of refurbished space at £5 per sq ft. Whilst 2019 has started slowly, already this year we have seen Amazon sign up for nearly 1 million sq ft, including taking Gazeley’s Altitude building in Milton Keynes.

Despite the continued stories emanating from politicians and the wider mainstream media, stockpiling has had a limited effect on ‘Big Sheds’ and supply, although steady, remains by historic levels, tight. There have been some requirements related to Brexit stockpiling, it’s been nowhere near the level reported in the wider press. Indeed, we are aware of landlords knocking-back deals for sub 5 years, where occupiers required short-term space.

There is plenty ‘market chat’ currently around the level of spec development, but there are a few myths to bust. As demand has increased, so too has the response from

developers and their investors, as you’d expect, and there is currently 8.03m sq ft under construction, with a further 1.9m sq ft completed this year already (see Fig 2).

Therefore it would be easy to look at just the numbers and suggest that spec development is now back to the peak of the previous cycle in 2005-08, when 41.5m sq ft was developed (by end 2019 we will have reached c. 39m sq ft), but this does not take into account the 30% average increase in take-up and the fact that supply is now 70% less than it was at the peak of the last cycle.

Fundamentally, despite the increase in spec, we are not oversupplied and definitely not in the size ranges above 300,000 sq ft. Indeed, **little space has been developed in the upper size ranges with just c.10m sq ft developed in units above 300,000 sq ft since 2013. In the same period, there has been c.70m sq ft of take-up in units above 300,000 sq ft,** so easy to see why the likes of Panattoni, Mountpark and Gazeley, amongst others, are providing stock for that end of the market.

Moving forward throughout the remainder of 2019, DTRE are confident that the occupier market will continue to see sustained demand and with the ‘spec tap’ for 2020 looking likely to be more of a drip than steady flow we will continue to see rental growth for the best assets. Retailers are increasingly seeing their supply chains as a competitive asset rather than a cost centre and this means less will be spent on retail and more will be spent on logistics real estate moving forward and this trend won’t be disappearing anytime soon.

Fig 1 Take-up 100,000 sq ft +

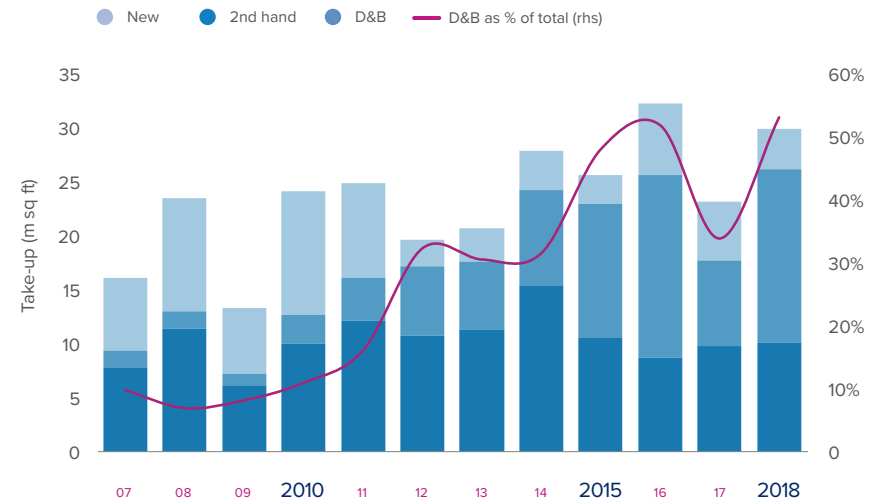
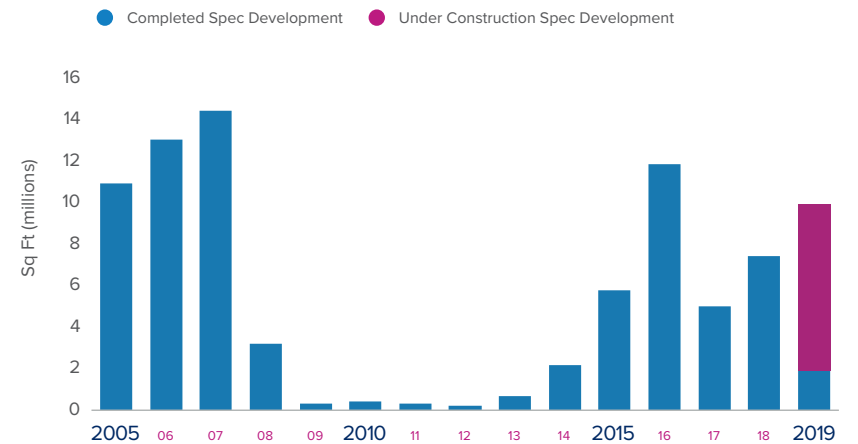


Fig 2 Spec development per annum (in units of 100,000 sq ft +)

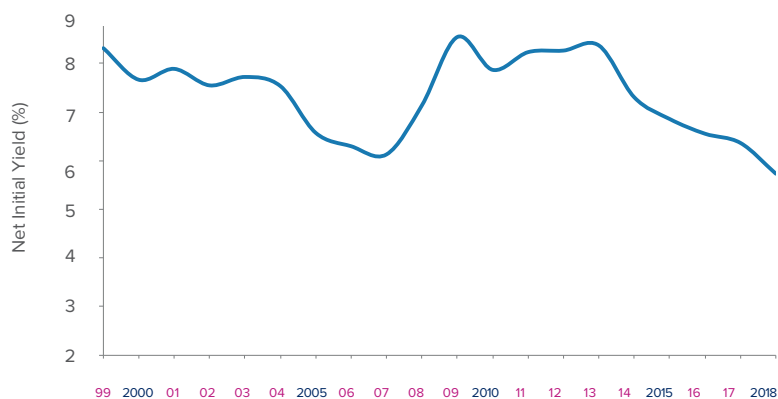


Source Figs 1 & 2: DTRE

Fig 3 Investment volumes



Fig 4 'Average' transactional yield on Distribution Warehouses



Source Figs 3 & 4: DTRE/Property Data

NATIONAL LOGISTICS INVESTMENT MARKET

Just like the occupier market, the investment market enjoyed further strong performance in 2018. Just over £8bn was spent in the industrial and logistics sector, the second highest figure on record and split evenly between distribution warehouses and multi-let industrial estates.

This surpassed the 5-year average (2013-17) of £6.6bn. In addition, Total Returns, as measured by MSCI, reached 17.4%, the best return of all Property Sectors (see Fig 3).

2018 saw the sector draw from a broad spectrum of investors, both domestic and overseas, attracted by the stable, long-dated income on offer, as well as hoping to capitalise on the prevailing rental growth story that has been driven by the changing occupier fundamentals, namely limited supply and record levels of demand.

2018's biggest purchasers were Tritax Big Box REIT, who splashed £647m on 8 assets and Singaporean investor, Ascendas REIT, who bought two portfolios totalling c.£464m. Additionally Tritax Big Box REIT started 2019 by purchasing 87% of DB Symmetry, with the total value of the deal reaching £370m.

Last year saw the competition to access assets within the industrial sphere reach unprecedented levels, which in turn drove significant yield compression, with yields reaching

historic lows. At the peak of the last cycle, average 'All UK Industrial' net initial yields, as measured by MSCI, reached 5.19% in June 2007, we are now ahead of that level, with the latest reading suggesting net initial yields of 4.3% (see Fig 4).

should continue to see yields bid down to secure these type of assets and there's evidence of pricing levelling out across the UK for this type of product.

Moving forward 2019 presents very obvious external challenges to the sector but it is important to remember that **Brexit is a political crisis and not an economic one and we are confident of a 'Brexit Bounce' once a deal is sorted with the EU.** Albeit the further the can is kicked down the road, the longer it will take to witness said 'bounce'.

So whilst it would be remiss to suggest the sector will continue to steam ahead at the rates witnessed in the last three years and we do foresee a drop year-on-year in volumes and returns, the DTRE view, as well as the consensus forecasts from the Investment Property Forum (IPF) is that industrial and logistics will sustain its position as the top performing property sector in 2019, significantly ahead of the retail and office sectors.

INDUSTRIAL AND LOGISTICS WILL SUSTAIN ITS POSITION AS THE TOP PERFORMING PROPERTY SECTOR IN 2019

We do see yields levelling off this year and there will be plenty challenges ahead between investors and valuers. Nevertheless, for assets with long dated, index linked income and let to strong covenants, we

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Robert Taylor
020 3328 9206
robert.taylor@dtre.eu

DTRE
2nd Floor, Coin House, 2 Gee's Court
London W1U 1JA
dtre.eu

DTRE RESEARCH

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