BIG BOX LOGISTICS
OCCUPIER & INVESTMENT MARKET REVIEW

DTRE RESEARCH REPORT
OCTOBER 2019

DTRE | **RESEARCH**

5 THINGS YOU NEED TO KNOW ABOUT BIG BOX LOGISTICS IN OCTOBER 2019

1

Occupier take-up reaches **19.7m sq ft by end Q3**, down 10% year-on-year

2

Eddie Stobart Logistics have been the busiest occupier in Q3, **signing up for 1.5m sq ft** of space across the North West, Midlands and South East

3

9m sq ft of speculative development has been delivered this year, with a further **4.3m sq ft still to come by the end of 2019**

4

Investment volumes have reached **£2.3bn by end Q3, down 20% year-on-year**

5

Lack of stock and Brexit has suppressed volumes, but **logistics returns will still outperform all other sectors**

OCCUPIER MARKET

The occupier market continues to perform well in the absence of any clarity on the UK's future trading relationships with the EU and elsewhere. Take-up by the end of September has reached 19.7m sq ft, just 10% down on the same period in 2018.

The Big Box market has bounced back well after a slow start to the year, with Q3 seeing 7.5m sq ft of take-up. Again this is down 10% on the quarterly average since 2014, but given the current political, and subsequent economic, uncertainty around the UK presently, this represents a solid performance.

Despite the suspension of their shares in August for accounting irregularities, Eddie Stobart Logistics (ESL) have been the most active occupier in the last three months, signing up for nearly 1.5m sq ft of space across the Midlands, North West and South East. Firstly, ESL took out 625,000 sq ft at Panattoni Park, Northampton, across three units. Secondly, they received planning at the second attempt, to build out a new 630,000 sq ft distribution centre alongside their existing facility just off the M56 in Warrington. Finally, agreeing a 10-year lease at Logicor's Logic233 in Dagenham at a rent of £8.25 per sq ft.

With ESL leading the charge it is no surprise that third-party logistics providers (3PLs) accounted for over 4m sq ft of take-up in Q3, c.55% of the market. This is no surprise as nervous retailers, in particular, find it easier to commit to pallet positions in the short term versus a direct lease.

The last quarter also saw some of the longer voids in the market removed from the supply. Oxenwood's Centric341 in Andover let to Westcoast Holdings, Exeter Property's M6DC in Cannock let to Super Smart Services, M&G's Unit 1 at Imperial Park, Coventry let to US toy retailer Funko and L&G/Graftongate's Thurrock 162 let to London City Bond.

In terms of regional analysis, the East Midlands is on track to have potentially it's most successful year ever. IM Properties and Jaguar Land Rover have received planning permission for their new 2.94m sq ft, five unit campus scheme, at Appleby Magna, just off Junction 11 of the M42 and should the scheme receive funding it would push take-up in the East Midlands towards a record 10m sq ft by year end.

Nevertheless, East Midlands take-up to date has totalled just over 6m sq ft, approximately 30% of all take-up seen across the UK. All other regions have performed solidly and by the end of 2019, and assuming a 'No Deal' Brexit is avoided, we would anticipate final year take-up numbers to be just shy of the 5-year average of 28m sq ft.

Looking ahead, nearly 9m sq ft of speculative space has been delivered into the market this year, with a further 4.3m sq ft set to complete before the end of January 2020, and of that 4.3m sq ft, there are four 500,000-plus sq ft units. Bericote/Hillwood at Haydock (525,000 sq ft), IM Properties at Hinckley (532,500 sq ft), Prologis at DIRFT (535,000 sq ft) and Panattoni at EMDC Castle Donnington (525,000 sq ft).

As a result of the new wave of speculative development hitting the market this year, supply has increased 10% since the end of 2018.

Whilst the level of anticipated development has slowed to a trickle for 2020, the level of supply will see some of the steam come out of rental growth moving forward. Certainly in some locations, such as the East Midlands, rents have hit a ceiling for the time being. Although other more supply constrained locations, including London and the South East, will continue to see rental growth.

Fig 1: **Take-up to end September reaches 19.7m sq ft**

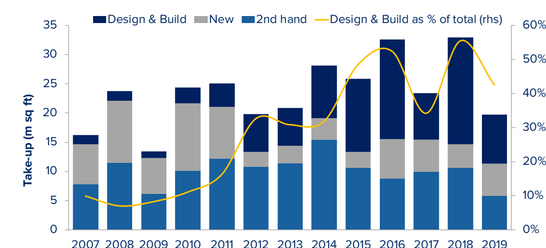

Fig 2: **Supply has increased 10% since end 2018**

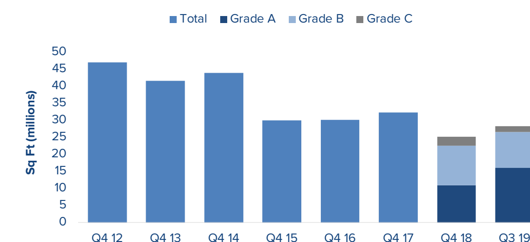

Fig 1: Source: DTRE
Fig 2: Source: DTRE

INVESTMENT MARKET

Whether it is the uncertainty created by Brexit, or late cycle nervousness from some, 2019 has seen some of the froth come off the top of the logistics investment market. Volumes are down 20% year-on-year but the sector still looks in good shape.

Fig 3: **Rolling annual investment volumes have slowed**

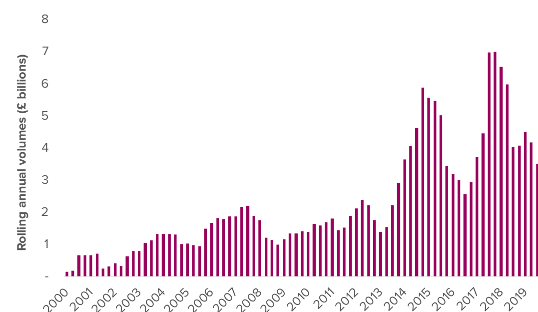

Fig 4: **Annualised Total Returns - Industrial leads the way**

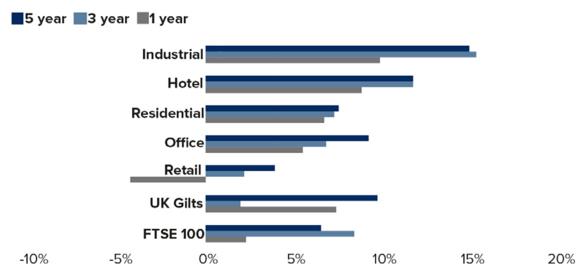

Fig 3: Source: DTRE/PropertyData
Fig 4: Source: MSCI, BoE, Pantheon Economics

Despite the anticipation of a tougher climb ahead with some sectors requiring oxygen, the logistics sector has plenty in its favour and will continue to offer the best returns of the traditional property sectors moving forward.

Volumes by the end of Q3 have reached £2.3bn and although that is down 20% on the same period in 2018 we are yet to see pricing start to drift, particularly for prime.

Yields on strongly covenanted, long-let assets with kickers continues to trade well, with no sign of a drift outwards, although admittedly the pool of buyers maybe shallower than it was 12-18 months ago.

As examples, Equites Property bought Super G in Castleford, the speculatively developed Barwood unit, subsequently let to Puma on a 15 year lease with 1-3% RPI reviews for £30.675m, a yield of 4.6%. GLP Gazeley bought the three units let by Stobart Group at Panattoni Park, Northampton, again 15 years with 1-3% CPI uplifts for £80m, a yield of 4.55%. Finally, Movianto's 377,000 sq ft unit in Haydock, let for 10 years with RPI uplifts is under offer to Warrington Borough Council ahead of quoting at 5%.

Despite the Brexit turmoil currently engulfing the UK, one of the core reasons volumes this year are down are that many of the traditional developer/trader operators such as Prologis and Gazeley have set up their own funds in which now sit assets which previously would have been traded.

For example, Gazeley at Magna Park Milton Keynes would have traditionally sold Altitude after its successful letting to Amazon earlier in the year, as well as the H&M units they pre-let last year. Now those units are transferred across to a separate GLP managed fund and c.£200m of investment stock does not come to the market.

In addition Tritax Big Box REIT, the biggest purchaser of logistics assets in recent years, are working up their own development pipeline to bring through, after their purchase of DB Symmetry and now re-branded as Tritax Symmetry.

Another notable trend is that purchasers are taking a much more stringent view on covenant than they were 18 months ago. There's plenty of examples of units that would have traded in 2017/18 that have stuck around.

Currently, there's c.£520m of logistics assets either being openly or quietly marketed, although many of those are secondary in either location or covenant and until the political uncertainty clears many will stick around, unless the vendors are less aspirational on pricing.

Having said all that, we remain confident that once Brexit is concluded, the sector will see volumes pick back up. There's a mountain of cash currently sat on the sidelines ready to deploy, with overseas investors as well as the UK funds still desperate to access stock.

Whilst the heady days of 20% returns might be behind us and the terrain on this latest climb might be slightly tougher, logistics will continue to offer the most attractive returns.

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