

BIG SHED LOGISTICS OCCUPIER & INVESTMENT MARKET REVIEW

DTRE RESEARCH REPORT
JULY 2019

DTRE | RESEARCH

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

1

Take-up has reached **11.3m sq ft** by end June 2019

2

23% down on the same point in 2018

3

There is **2m sq ft** in lawyer's hands already in Q3

4

Brexit is not helping the market, with occupiers and investors waiting for clarity

5

6.1m sq ft currently under construction set to complete before the end of 2019

6

Developers are thinking big, four units over **520,000 sq ft** are currently under construction

7

£1.6bn of logistics investments have traded year-to-date, **down 10%** on 2018

8

Tritax Big Box REIT have been the biggest spenders of 2019

9

Annual Capital Growth for all industrials is **c.9%**, the best performing traditional asset class

10

DTRE have advised on both the **biggest portfolio** and **single-let transaction** of the year so far

*Units over 100,000 sq ft

NATIONAL LOGISTICS OCCUPIER MARKET

The logistics occupier market has so far struggled to hit the heights of 2018 and at the halfway stage, with just 11.3 million sq ft transacted, we don't foresee last year's total being surpassed, particularly with Brexit looming in October. However, it is by no means all doom and gloom...

Take-up by end of June has reached 11.3m sq ft, down 23% year-on-year, but given the current economic and political climate, then this is hardly surprising (see Fig 1).

The largest lettings of the year have largely been pre-lets, with Amazon at iPort Doncaster, The Hut Group at TPG/Stoford's Icon scheme at Manchester Airport and Mountpark at Bardon, although subject to planning, all committing to space of 400,000 sq ft or more.

Gazeley's Altitude building (574,258 sq ft) at Magna Park Milton Keynes also successfully let in February to Amazon at a rent north of £7.50 per sq ft and is the largest standing unit that has transacted so far this year.

DTRE are also aware of an additional c.2m sq ft currently in lawyer's hands that should complete by the end of the summer. This will hopefully give a welcome boost to the take-up figures in Q3.

We said in our last report in March that the level of speculative development was concerning some corners of the market, but we remain bullish around the level of supply coming online. This is largely because the level of supply over recent years has been at historic lows and the speculative development tap for 2020 and beyond has slowed to a relative 'drip'.

There has been over 3.7m sq ft of speculative development completed this year, with a further 6.1m sq ft set to complete before the end of 2019.

There's also been a raft of speculative development in the larger size ranges, with Panattoni, Prologis, Bericote and IM Properties all building out single units ranging from 523,500 sq ft to 535,000 sq ft and demonstrating their confidence in the market. We believe this trend is an attempt to capture some of the occupiers that had been going down the design and build route. (see Fig 2).

Also, it is important to look beyond just the headlines numbers when analysing the current level of speculative development.

Whilst it is true that by the end of this year c.38m sq ft of speculative development will have been completed in this cycle (2014-19) and that number is roughly comparable to the level of speculative development completed in 2005-09 (41.5m sq ft), average take-up is now at 28m sq ft (2014-2018), compared to 18m sq ft from 2005-09, an increase of 52%.

Unfortunately, the remainder of 2019 will be plagued by the constant clouds of Brexit and until that mist has cleared it's difficult, and foolish, to suggest that occupier demand will undergo a radical upswing.

On the flip side, the logistics market is still performing well, just not as well as the last few years, but they were some of the best years on record and its important to remember that.

Fig 1: Take-up 100,000 sq ft +

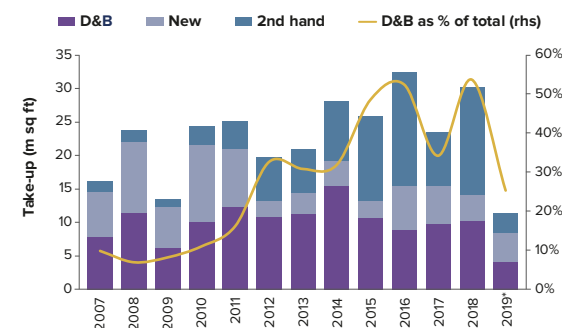
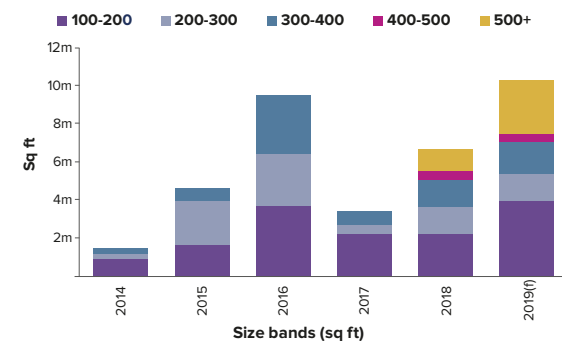


Fig 2: Spec development per annum by size band



Source Figs 1 & 2: DTRE; *End June 2019

NATIONAL LOGISTICS INVESTMENT MARKET

Much like in the occupier world, the investment market, whilst performing well, is unlikely to hit the heights of 2018. The uncertainty created by Brexit has resulted in a two tier market, with prime, long-let, index linked assets still performing well...

but some more secondary assets, those on shorter leases, or with poor covenants, have struggled to sell in some circumstances.

That being said, c. £1.6bn of logistics assets have traded so far this year, just 10% down on the same point in 2018 (see Fig 3).

Tritax Big Box REIT have been the year's most active investor and their acquisition of DB Symmetry's portfolio provides them with 38.2 million sq ft development potential in key logistics locations, at a time when the traditional developer-traders are no longer selling off assets.

The largest single asset deal of the year so far was CBRE GI's purchase of Sports Direct's warehouse in Shirebrook for £120m. Other active investors have been M&G, Exeter Property Group, Oxenwood and AberdeenStandard.

It has been mentioned time and again, but the structural changes taking place in retailing, with the shift from high street to online, has been to the benefit of the logistics sector and moving forwards we anticipate further occupier growth to come in the sector.

Therefore, those who are long-term UK investors will continue to be attracted to the sector and the only question will be the timing of when they return.

For that reason we remain very positive that should a Brexit deal be agreed then investment committees will once again find their appetite later on in the year.

At the other end of the spectrum, opportunistic investors have a window between now, and whenever Brexit is settled, to find opportunities in a less congested playing field. DTRE are currently tracking over £500m of secondary assets that are currently on the market, although the gap between vendors and purchasers pricing expectations has been holding back deals.

The big unknown is a 'No Deal' scenario. Both candidates to be the next Prime Minister, Johnson and Hunt, are proposing going down the 'No Deal' route at the end of October, should a new deal not be agreed with the EU.

In a 'No Deal' scenario it would be difficult to be confident in pricing holding firm, with evidence that average yields have stagnated this year, without the addition of 'No Deal' added to the recipe (see Fig 4).

Whilst logistics assets on the whole would remain the best performing traditional asset, we would expect capital values to take a knock as sentiment will be severely hit, with both yields and rents going into reverse.

Should this arise we would expect to see little trading, aside from some fire sales in the last months of 2019.

Hopefully, that will not be the case, a deal will be struck and confidence will return. However, over 3 years after the original result I wouldn't be confident in predicting any particular scenario.

Fig 3: Annual Rolling Investment Volumes

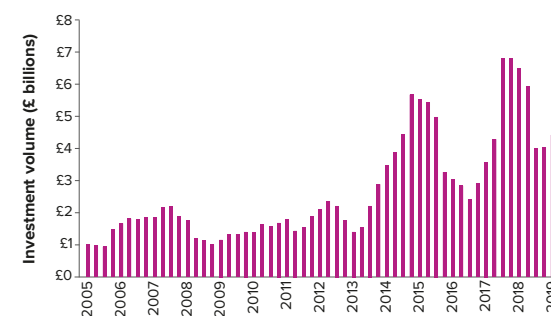


Fig 4: Average Transactional Logistics Yield Achieved

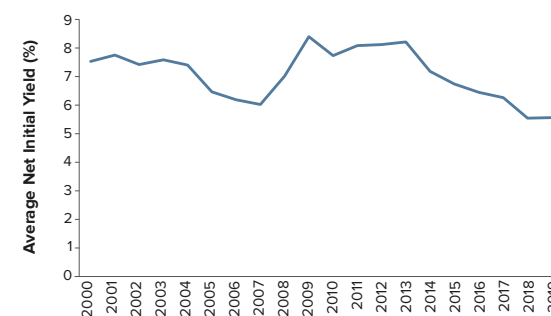


Fig 3: Source: PropertyData/DTRE
Fig 4: Source: PropertyData

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