



HOW LOGISTICS HAS THRIVED THROUGH LOCKDOWN



WRITTEN BY

Richard Harman | 020 3328 9089
richard.harman@dtre.com

Staying Safe at Home. Staying Open for Business.

The Industrial Agency team at DTRE has remained busy throughout lockdown. Initially the market witnessed a huge spike in requirements for short term, overflow accommodation; we saw supermarkets, online grocery platforms and government departments all searching for space across the UK. The reality is only a handful of these translated into property transactions. Instead, the supermarkets found an operational need for the surplus space they were marketing and the 3PLs, in particular Eddie Stobart, agreed service arrangements on their 'grey' space. We are still witnessing short term requirements, but these have significantly scaled back, both in terms of size and numbers.

Inevitably the breadth and depth of demand reduced. A lot of businesses focused on remaining solvent and dealing with the operational difficulties the pandemic presents. Online and related businesses, however, have bucked the trend and have expanded rapidly. As demand has risen for their products they in turn have demanded more warehouse space. This is not only driven by the immediate spike in demand,

but a strong belief that the wave of new 'pandemic' customers is here to stay. Online retail might have experienced 5 years' worth of growth in the space of 10 weeks.

Example transactions committed to during lockdown include:

- **Amazon** @ Panattoni Park, Nottingham – 550,000 sq ft
- **Amazon** @ Bedford Commercial Park – 405,000 sq ft
- **M&S** @ MK360, Milton Keynes – 360,000 sq ft
- **Bleckmann** @ Magna Park, Lutterworth – 186,000 sq ft

In addition, DHL are believed to have exchanged on a substantial pre-commitment, in excess of half a million sq ft at East Midlands Gateway. Also, online grocery platform Hello Fresh are under offer at Nuneaton 230 and competitor Gousto have active requirements that could see them acquire close to half a million square feet. Then there is the juggernaut which is Amazon, who have numerous active searches throughout the UK. Watch this space in the next week.

Since lockdown DTRE have placed under offer or completed on transactions of over 1m sq ft and have ongoing negotiations on over 4m sq ft. Inevitably some occupiers have tried to re-negotiate terms, either driven by a genuine need because of the current uncertainty or taking advantage of the situation. Generally, headline rents have remained stable, but we have witnessed greater impact on incentive packages, as some landlords have preferred to secure transactions rather than sit on voids.

To balance the equation, new supply is tightening. Caution has inevitably crept into the development market and many proposed speculative schemes have been paused. To date we haven't seen many second-hand units being offered to the market due to insolvencies, but this may change and could be much needed to soak up demand from the online sector.

As lockdown loosens Q2/Q3 rent collection may be the most significant factor on landlord's minds when negotiating headline rents, but given supply is still tight and occupiers are engaging in serious negotiations, it would suggest they have a genuine business need for the space. Whilst in the short-term rental growth may be curbed, we expect to maintain pre-Covid rental levels and for rents to grow again as we come out of lockdown.

What have we learnt from the Covid-19 pandemic?

It has pushed even more consumers online and whilst some will return to 'traditional' shopping habits, a large proportion will remain. We, as consumers, now expect same day delivery, and retailers supply networks are evolving and expanding to accommodate this. Prior to Brexit many retailers didn't hold enough inventory within their already thin supply chains. The pandemic has exposed this and could well be exacerbated further when we leave the EU in January '21.

These dynamics will continue to drive demand and the relatively low levels of supply make the logistics sector robust and will see it continue to perform.