BIG BOX LOGISTICS
OCCUPIER & INVESTMENT MARKET REVIEW

DTRE RESEARCH REPORT
NOVEMBER 2020

DTRE | RESEARCH

5 THINGS YOU NEED TO KNOW ABOUT BIG BOX LOGISTICS IN NOVEMBER 2020

1

Occupier take-up reaches **33.24m sq ft by end Q3,** up 69% year-on-year

2

Amazon have been the busiest occupier so far this year and have accounted for **over 20% of take-up**

3

Just 3.3m sq ft of speculative development has been delivered this year, with a further **4.6m sq ft under construction**

4

Investment volumes have reached **£5.1bn by end Q3, with £3.7bn deployed into distribution warehousing and logistics, with the other £1.4bn into multi-let industrials**

5

Despite lockdowns and Brexit yields have compressed, particularly for prime logistics assets and we anticpate this trend continuing for the next 12 months at least

OCCUPIER MARKET

The world has changed in the last 9 months but without dwelling on all the external factors surrounding Covid-19 , the global pandemic and resultant economic turmoil that has followed, there is one sector of the property industry that has come through unscathed.

The 'Big Box Logistics' market has not only held up well through lockdown and the subsequent economic downturn, it has positively thrived, and as we head into a second lockdown this Thursday, there's no reason to believe that the momentum within the logistics sector won't continue.

In terms of the stats, demand for 'Big Box Logistics' warehousing has never reached such high levels previously. By the end of September take-up had reached 33.24m sq ft. To put that into context, that's more take-up in 9 months than in any previous year we have take-up stats for. 2020, despite lockdowns, a severe global economic downturn and a possible 'No Deal' Brexit, will see record take-up.

Scratching the surface of the data shows that 22% of take-up has been to Amazon and a further 10% of take-up has been on short-term leases to businesses requiring immediate space to help get through the pandemic.

In terms of unit sizes, as usual it is the 100-200,000 sq ft bracket that has seen the most demand, with 55% of all deals occurring within this size bracket. The new trend emerging has seen a definitive shift into the upper size ranges, led by the likes of Amazon. So far this year we've seen 30 deals occur of 300,000 sq ft or greater, that's more than in any previous year.

One thing the pandemic has undoubtedly done is fast-forward changes that were already taking place, with the changes to rate of online shopping being the best example.

DHL said in their recent results that the pandemic had condensed the growth in e-commerce from 6 years to 6 weeks and Royal Mail have shipped 117 million more parcels by the end of the June quarter, compared with the same period in 2019, as people and businesses shifted to online sales during lockdown. With a second lockdown around the corner, expect to see e-commerce rates once again be pushed up and once lockdown is behind us, online demand will settle on a far higher shelf.

As levels of demand have reached unprecedented levels, supply has been unable to keep up. Across the UK, vacant existing warehouses over 100,000 sq ft currently stand at 27.96 million sq ft, across 138 separate units.

Using the three-year rolling average take-up of 27.9 million sq ft, there is just over one years' worth of supply remaining.

At present, 44% of the vacant stock by unit count is within the 100,000-200,000 sq ft size band and there are just 25 units available of over 300,000 sq ft., only 7 of which are new buildings, the others being second hand.

The onset of the pandemic saw a raft of retailers moving back into space they had previously occupied, or 'grey space' and although that isn't recorded in the take-up stats it does affect the supply as it removes space that was previously marketed.

As a result, supply is now down 10% on where it was at the turn of the year and with the speculative development tap slowing to a relative drip, there is no sign of it increasing anytime soon.

There's currently just 4.6m sq ft under construction, with 3.3m sq ft completed year to date and a further 1.2m sq ft expected to complete by the end of the year. That would represent 4.55m sq ft and be the lowest level of development in 4 years.

With the experience of the first lockdown still firmly in the memory, then there's no reason to fear the second lockdown looming from this Thursday and we anticipate a strong finish to the year.

Fig 1: **Take-up to end September reaches 33.24m sq ft**

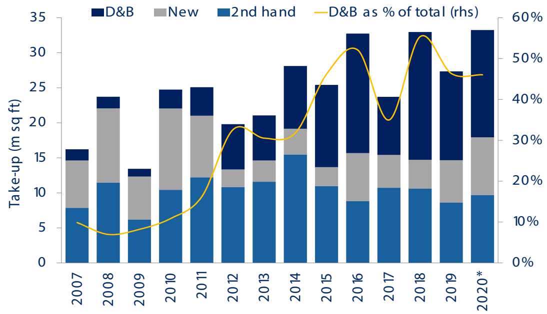

Fig 2: **Speculative development by year**

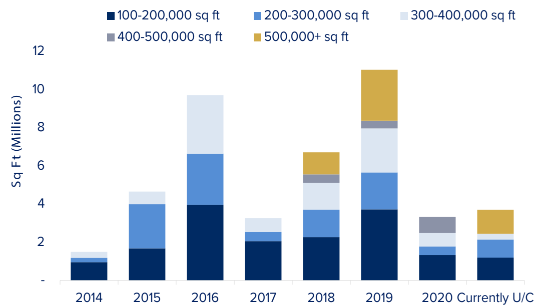

Fig 1: Source: DTRE; *End September
Fig 2: Source: DTRE

INVESTMENT MARKET

Despite the economic uncertainty created by a global pandemic, the logistics investment market has thrived, with a wall of money, from both overseas and domestic investors chasing assets. Both prime, single-let assets and portfolio deals have seen seen yield compression.

Fig 3: Average **prime yields continue to compress**

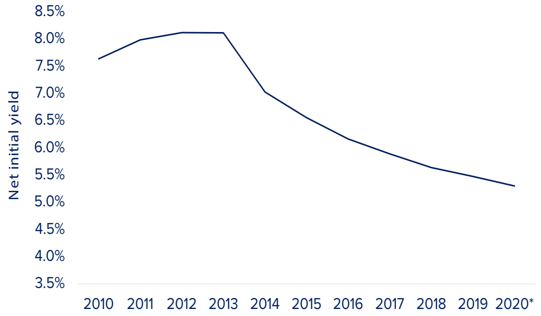

Fig 4: **Capital Growth Returns - Industrial leads the way**

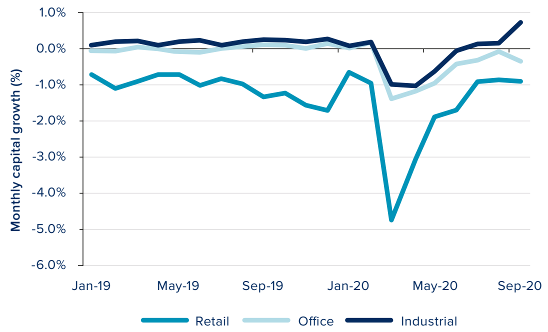

Fig 3: Source: DTRE/PropertyData *End Q3
Fig 4: Source: MSCI, Panmure Gordon

When lockdown hit in March many commentators and analysts wondered whether the pricing in logistics assets would come off after a good run over the last couple of years, as capital markets across the entire property market shut up shop. The reality has been quite different.

Whilst lockdown has cast doubts over the future of offices and retailing, both on the high street and shopping centres, the logistics sector has been the one asset class that has continued to operate, both in terms of the occupiers inside the warehouse, as well as from an investor sentiment point of view.

For investors the sector is currently offering both a degree of defence in the current climate, as its occupiers are by and large able to operate during lockdown, but also the sector offers growth over the longer term, particularly from online retailers.

Logistics investment volumes have reached £3.7bn year-to-date, with Prologis' sale of the Platform Portfolio for £473m to Blackstone last week, not only the biggest deal of 2020, but the biggest UK logistics sale ever and a clear example of the demand for logistics assets with over forty interested parties at the start of the process, representing capital from across the world.

Q3 also saw Legal & General complete on the forward funding of a 2.3 million sq ft warehouse let to Amazon at Panattoni Park Swindon. L&G paid £201.8m/4.3% for the asset, let to Amazon for 20 years.

Whilst prime 'Big Box' assets have been in-demand, so too have urban logistics assets and the sale of Electra Park by Schroders to Segro for a record low yield of 2.58%, not only underlines the aggressive bidding down of yields by investors to secure this type of product, but also the faith of investors in the strength and depth of occupier demand and subsequent rental growth prospects.

Blackstone continue to be the most active investor, having spent over £800m year-to-date, with further US Private Equity also deploying into the sector in the form of Exeter Property Group spending £237m.

The Prop Co's and REITs have been active, particularly Segro with their London urban logistics purchases (Electra £133m/2.58% and Perivale Park £202.5m/3.12%), but what is less certain is when the UK Institutions will return to the market, although L&G's purchase at Panattoni Park Swindon and Columbia Threadneedle's £24.75/6.29% purchase of a 180,000 sq ft Next warehouse in Bristol, both completed last month, demonstrating a tentative return by the funds.

Moving into the next month long lockdown this Thursday, there's no reason for investors to feel unnerved. As for the reasons stated previously, logistics and warehousing is able to continue to operate, unlike retail and offices, and in addition to that, this next lockdown will see further growth and demand for warehousing via the growth in e-commerce.

DTRE anticipate a strong finish to the year, with a number of prime assets currently under offer and pricing continuing to hold firm in the face of renewed economic uncertainty.

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