BIG BOX LOGISTICS
OCCUPIER & INVESTMENT MARKET REVIEW

DTRE RESEARCH REPORT
APRIL 2021

DTRE | RESEARCH

5 THINGS YOU NEED TO KNOW ABOUT BIG BOX LOGISTICS IN APRIL 2021

1

Occupier take-up reaches **6.8m sq ft by end Q1**, in-line with the 5-year quarterly average

2

Whilst take-up is only in-line with averages, there is **currently in excess of 13 million sq ft of deals under offer or in legals**

3

Development has come roaring back with close to **36m sq ft of new stock to be delivered this year**, 25m sq ft of which are pre-lets

4

Investment wise the market has continued where it left off in 2020. **£1.9bn of Big Box units have traded so far in 2021, with a further £825m under offer**

5

Pricing, particualrly for prime, continues to harden, **with the average yield on a 15 year WAUTC this year trading at 4.2% NIY**

OCCUPIER MARKET

2020 was a year like no other for many of the reasons we are all very much aware, but it was also a year like no other for Big Box Logistics, which witnessed a record level of demand, with over 46.5m sq ft of take-up. A remarkable outcome considering the twin threats of Brexit and Covid, and 2021 has not yet seen any slowdown.

Big Box logistics demand has steadily been increasing over recent years and the current 5-year average of take-up is an example of this. The 5-year average now stands at 32.7m sq ft, 37% ahead of the previous 5-year average seen between 2010-15.

So whilst 2020 saw an explosion in occupier demand and some of it no doubt was to do with short-term Covid requirements, much of the demand was also to do with the changing habits of the UK consumer, and as such, was well underway before the pandemic hit.

Q1 2021 SAW 6.8 MILLION SQ FT OF TAKE-UP, WITH A FURTHER 13 MILLION SQ FT CURRENTLY UNDER OFFER OR IN SOLICITOR'S HANDS

The first three months of 2021 are yet to see a slowdown, even if the numbers suggest it has been an average quarter. Whilst 6.8m sq ft of deals have signed in Q1, there's currently another 13 million sq ft under offer, if even one-third of these had completed before the end of March it would have represented the best Q1 ever on record. The anecdotal evidence suggests that deals are taking longer in solicitor's hands to complete and this is delaying the process.

In terms of who took what, L'Oreal's 750,000 sq ft pre-let at H-Park, Heywood was the largest deal of the quarter and helped catapult the North West to the top of the charts in terms of occupier demand accounting for 27% of all take-up in Q1, ahead of the traditional heartlands of the East and West Midlands, respectively.

Elsewhere, the South of England saw a relatively flat Q1, with the 400,000 sq ft pre-let by Made.com at London Gateway in January one of the two stand out deals, alongside the letting of the former House of Fraser unit in Milton Keynes to Amazon to service their 'Fresh' business.

Moving through 2021, whilst demand and requirements are holding up, the lack of up and built supply could hinder the final take-up numbers, particularly in the North West and South East and that is despite a tick-up in speculative development starts.

DTRE Research is currently tracking just over 10 million sq ft of Big Box speculative developments across the UK, however, close to 50% of the development is in the East Midlands, with the single biggest being Panattoni's Derby 515 (515,000 sq ft) unit.

So whilst development has picked up, some areas, such as the North West, are now suffering from an acute shortage of new, Grade A space, with the North West's vacancy rate for Grade A now running just under 2% and this has seen rents push up significantly in the region. So much so, that, the average quoting rent for the remaining new build stock which is still available (not under offer) and pipeline stock which has started on site, is £6.98 per sq ft.

Fig 1: Take-up to end Q1 reaches 6.8m sq ft

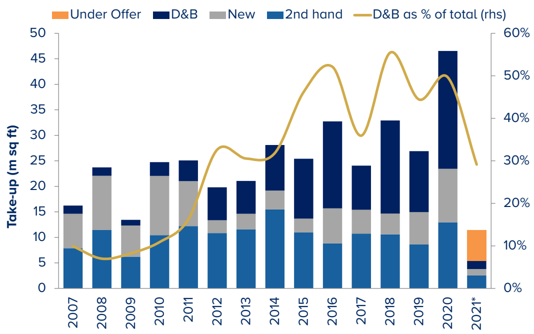

Fig 2: Speculative development by year

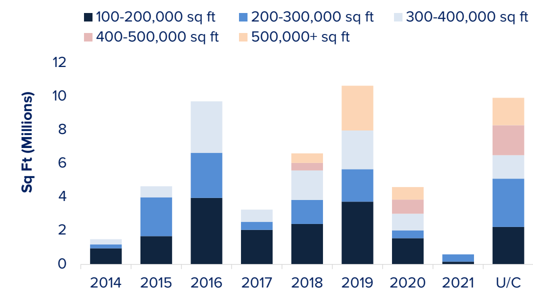

Fig 1: Source: DTRE; *End Q1
Fig 2: Source: DTRE

INVESTMENT MARKET

The investment market for Big Box logistics continues to show no signs of slowing down and after a stellar 2020, Q1 '21 has continued in a similar vein. The first three months of the year has seen close to £1.9bn traded - some 68% ahead of the quarterly average.

Fig 3: **Blackstone acquired 20% of the market in 2020**

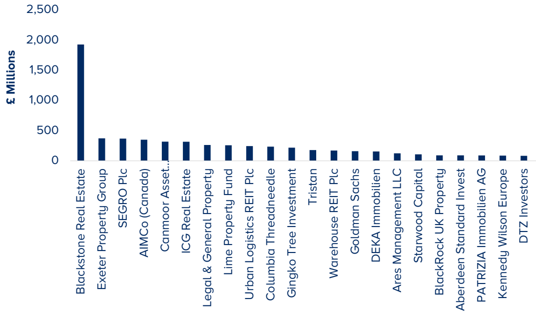

Fig 4: **Average Yields are Sub 4% in London & South East**

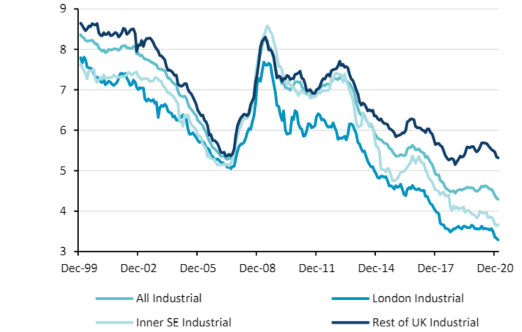

Fig 3: Source: DTRE/PropertyData
Fig 4: Source: MSCI, Panmure Gordon

Very much akin to the occupier landscape, the investment market has got off to a roaring start so far this year and the weight of money chasing logistics assets in the UK shows no sign of abating.

PRICING CONTINUES TO HARDEN AND BY THE END OF THE YEAR LONG-DATED INCOME COULD BE PUSHED TO 3.25% NIY

Capital from across the globe continues to try to find a home in the UK, with two of the biggest deals in Q1 being to new entrants into the logistics sector.

Firstly, Chinese state-backed investor Gingko Tree Investments made their move into the logistics sector by acquiring the 525,000 sq ft Kellogg's unit in Haydock in January for £73.83/4.2% and secondly, predominantly US retail investor, Realty Income Corp., acquired two units from M&G, a 345,000 sq ft Iron Mountain warehouse in Belvedere, South London, for £90.68m/3.75%, as well as a 276,000 sq ft TK Maxx unit in Walsall for £29.3m/4.5%.

The biggest single-let deal of Q1 was the funding of a new 670,000 sq ft Pets at Home unit at North Stafford Business Park, for which Tesco Pension Fund have paid £99.575m/3.75%.

After a stand-out year in 2020 when they acquired nearly 20% of the entire market, Blackstone have continued to be active, purchasing two units from South African investor Equites for a combined £43.4m/4.79%.

In terms of portfolios, Bentall Green Oak secured the biggest deal so far this year with their £305m/4.15% purchase of the so-called Adelaide Portfolio, which contained seven single-let assets spread across 2.18m sq ft.

Moving through the rest of 2021, we continue to see pricing harden, to the point where-by long-dated, 15 years plus income could come into 3.25% and rack-rented 10 year income into the low 4s.

However, despite the pool of investors chasing assets, it will be difficult to top last years stellar year in terms of volumes. The absence of the traditional developer traders, as well as relatively few large portfolios expected to come to market in 2021, will keep a lid on trading volumes when compared with 2020.

In terms of the investors, US Private Equity will continue to be the dominant players in the market, but watch out too for the return of the UK investor with AberdeenStandard, who through their 60% stake in Tritax will become increasingly active, as well as British Land, who are keen to diversify their portfolio and pivot away from their traditional sectors.

WRITTEN BY

Robert Taylor
020 3328 9106
robert.taylor@dtre.com

DTRE
2nd Floor
Coin House
2 Gee's Court
London W1U 1JA

DTRE

www.dtre.com