BIG BOX LOGISTICS
OCCUPIER & INVESTMENT MARKET REVIEW

DTRE RESEARCH REPORT
JULY 2021

DTRE | RESEARCH

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

1

Occupier take-up reaches **23.6m sq ft by end Q2**, with a further 7 million sq ft under offer or in lawyers hands.

2

Demand has not slowed down after a record 2020, and as such, up and built supply is now at a critical level, **with the DTRE vacancy rate reaching a record low of 3.7%**

3

Development is on the up and **DTRE are currently tracking 11.7m sq ft of speculative units of 100,000 sq ft or greater**

4

Investment volumes have shown no signs of slowing, **with £6.3bn traded by end June, up 123% on the same point in 2020**

5

Pricing, particularly for prime, urban units located in and around London and the South East, **has hardened in the last 3 months to sub 3%**

OCCUPIER MARKET

The record levels of occupier demand witnessed in 2020 have shown no signs of slowing so far in 2021, and with occupier take-up reaching just over 23.6 million sq ft, we could be on course to at least match, if not surpass 2020's record year. Seemingly, the only hinderence to demand? An acute lack of supply.

Prior to Covid hitting the world in early 2020, the logistics sector was already the talk of the property town, but the last 18 months have been quite unlike any period or cycle witnessed before. Further to that there still remains currently no sign of any slowdown, with the twin forces of Covid and Brexit and the trends developing from them continuing to require urgent occupier attention.

Q2 2021 SAW 15.6 MILLION SQ FT OF TAKE-UP, THE SECOND BEST QUARTER OF DEMAND ON RECORD

In terms of the numbers, they remain ahead (or behind) anything we have seen before. Q2 of this year witnessed 15.6m sq ft of demand, that's 126% ahead of the quarterly average we have observed since 2007. Whilst supply has plummeted.

In terms of where demand has focussed, it has been in the prime logistics heartlands of the Midlands, which has swallowed up 40% of all take-up witnessed so far this year, followed by the South East (19%) and the North West (17%).

The biggest observable trend in the data that has driven these increasingly large take-up figures has been the shift, led by the likes of Amazon and other retailers, to increasingly bigger units.

In the period prior to the pandemic, from 2017-19, on average we saw 14.2 million sq ft of take-up per annum in units of 300,000 sq ft or bigger, in the last 18 months alone we have seen 43 million sq ft of take-up in those bigger units.

These size of units aren't only being let on a design and build or pre-let basis. Developers who have speculatively developed these units have by-and-large been rewarded, with the DTRE Spec Tracker highlighting that on average these units have let within 9 months of reaching practical completion, compared with 16 months for units below 300,000 sq ft.

Moving forward, the only handbrake to these continuing record-breaking take-up figures appears to the acute lack of supply, particularly in the upper size ranges. Excluding units that DTRE are aware of being under offer, there are currently just eight warehouses available across the UK bigger than 300,000 sq ft. At the start of the year, that number was twenty-seven. As such the DTRE National Vacancy Rate has fallen to its lowest ever level of 3.7%.

The twin pillars of demand and lack of supply will only continue to drive rental growth and DTRE Research is forecasting average national rental growth of 3.3% for 2021, with 2022 not far behind at 3.2%.

Fig 1: **Take-up to end Q2 reaches 23.6 million sq ft**

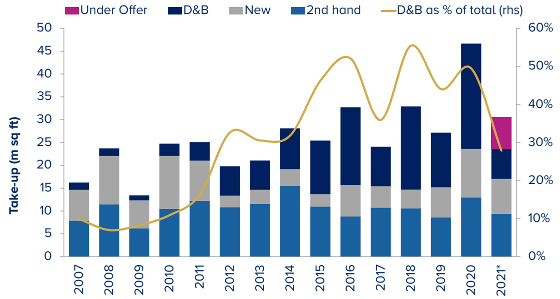

Fig 2: **Supply has now fallen to its lowest level**

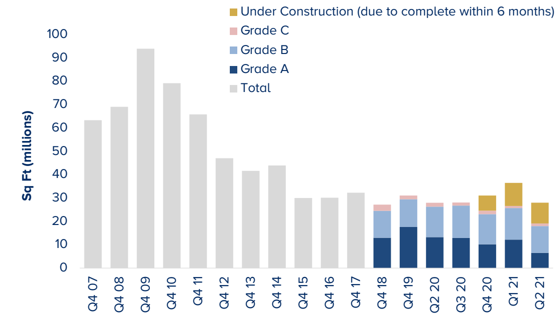

Fig 1: Source: DTRE; *End Q2
Fig 2: Source: DTRE

INVESTMENT MARKET

The investment market continues to show no signs of slowing down and after a stellar 2020, 2021 has continued in a similar vein. Across all industrial we have seen £6.3bn traded – with single-let distribution warehousing accounting for 69% of the total volume.

Fig 3: **Q2 saw £2.2bn of single-let assets traded**

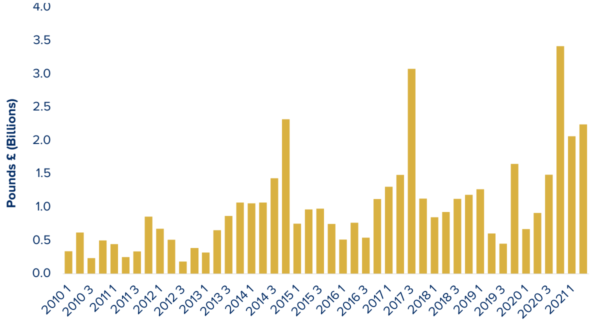

Fig 4: **Average achieved net yields continue to sharpen**

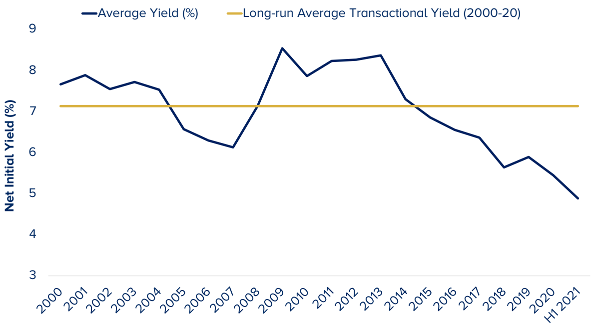

Fig 3: Source: DTRE/PropertyData
Fig 4: Source: DTRE/PropertyData

The investment market has continued it's roaring start to the year in Q2, with Q2 2021 seeing £2.2bn of single-let Big Box assets trade, that's the best Q2 ever on record and 139% up on the average quarterly volume since 2010.

Q2 2021 WAS THE SINGLE BEST Q2 ON RECORD FOR DEAL VOLUME, WITH £2.2BN OF SINGLE-LET ASSETS TRADED. THE RESULT HAS SEEN AVERAGE YIELDS HARDEN FURTHER

The biggest investor this year continues to be Blackstone who have acquired £680m of logistics warehousing, made up largely by their acquisitions of the Albion Portfolio from Westbrook for £282.5m/5.95% and the Vantage Portfolio from InfraRed for £186.5m/5,02%, DTRE advised across both.

The UK Funds have also been active so far in 2021, with AberdeenStandard, Savills IM, NFU and LondonMetric all very active in the sector. AberdeenStandard, in-particular, have been busy, acquiring £430m worth of logistics assets in the last 3 months alone.

ASI's biggest purchase was the £153m/4% acquisition of the Weiss Portfolio, whilst they also spent over £100m each on the sale and leaseback of the Next warehouse in South Elmsall (£114.8m/3.48%) and a recently let Amazon warehouse in Hinckley for £102.4m/3.10%.

The weight of capital chasing a finite amount of logistics assets continues to push down on yields and the average transactional yield so far this year is now sub 5% (4.89%), which is the lowest on record and down over 100bps since the start of 2020.

We stated in our last quarterly Big Box Logistics Report in April that we believed pricing would harden to the point where-by long dated, 15 years plus income could come into the low 3%s and rack-rented 10-year income into the low 4%s. We still believe this to be true and perhaps could even see 10-year income come in even sharper to high 3%s, in the right locations.

Moving through the next six months, we continue to think volumes will struggle to topple last year's highs due to a lack of large lot sizes and portfolios coming to market in the near future. However, there remains opportunity for investors and DTRE are currently tracking £520m of single-let assets in the market, with a further £640m of single-let assets currently under offer.

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