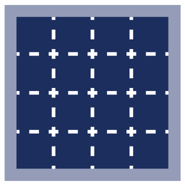
BIG BOX LOGISTICS
OCCUPIER & INVESTMENT MARKET REVIEW

DTRE RESEARCH REPORT
OCTOBER 2021

DTRE | RESEARCH

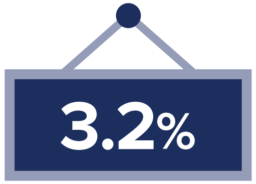
5 THINGS YOU NEED TO KNOW ABOUT BIG BOX LOGISTICS IN OCTOBER 2021

1



Occupier take-up reaches **33 million sq ft by end Q3**

2

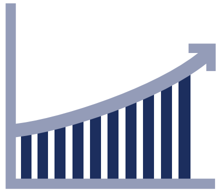


More deals have been done year-to-date than in 2020, as a result built supply is now at a critical level, **with the DTRE vacancy rate reaching a record low of 3.2%**

3

Development is on the up and **DTRE are currently tracking 12.2 million sq ft of speculative units of 100,000 sq ft or greater**

4



Investment volumes have shown no signs of slowing, **with £7.5bn traded by end September, up 14% on the entirety of 2020**

5

15 year plus income **is now in the mid to low 3% and 10 year rack-rented income remains in low 4s**

OCCUPIER MARKET

The thirst for Big Box warehousing remains unquenchable, however, the lack of built supply in the market is now impacting take-up. Q3 saw a touch over 8.2 million sq ft transact, the lowest level of quarterly take-up since the pandemic hit in Q1 2020.

Year-to-date we have witnessed nearly 33 million sq ft of take-up, 34% ahead of the average level of take-up we have witnessed over the first 9 months of the year since 2016. However, the twin forces of lack of supply and a scarcity of those mega XXL 750,000 sq ft deals in the last three months has held back the overall level of take-up.

BY THE END OF SEPTEMBER, WE HAVE SEEN 17% MORE DEALS THAN IN THE SAME PERIOD IN 2020

There is a slight anomaly in that so far this year we have seen 17% more deals than over the same period than during the record year of 2020, however, Q3 with just 25 deals recorded, has seen the lowest number of deals since Q1 2020.

Again this trend can be seen in the type of space occupiers are acquiring, with just 20 pre-lets being signed through the first 9 months of 2021, compared to an annual average of 40 in each of the last 5 years.

However, if you have speculatively developed, then by and large developers and their investors have been rewarded. We have witnessed 56 speculatively developed units transact so far this year, already 30% ahead of the 5-year annual average.

The DTRE 'Spec Tracker' shows that the average void for speculative units is now just over 14 months, however, with a number of longer voids such as Kingsway 216 (10 years to Amazon), Worcester 163 (15 years to Super Smart Services) and Unit 1, South Central, Southampton (10 years to Hermes) all letting up recently, expect to see the average void move in as these longer voids drop off our tracker.

In terms of the most active occupier of the last three months, no prizes for guessing, but Amazon once again took that crown, with four separate transactions, their largest, and also the largest of the last quarter, being their 746,478 sq ft letting of MPS1 on GLP's Magna Park Lutterworth, where DTRE were letting agents.

Other key deals saw JD Sports lease 514,193 sq ft at Panattoni's Derby515, whilst IKEA took the speculatively developed 450 @ The Powerhouse from Tritax Symmetry and Bericote (advised by DTRE).

Moving through the final three months of 2021, and often busiest months of the year, we don't expect to see a huge up-tick in take-up, again due to the lack of built supply. Whilst DTRE are currently tracking 12.2 million sq ft of speculatively development due to complete in the next 6 months, the stock of up and built and readily available supply remains at a critical low and the DTRE Vacancy Rate is now at 3.2%.

Fig 1: **Take-up to end Q3 reaches 33 million sq ft**

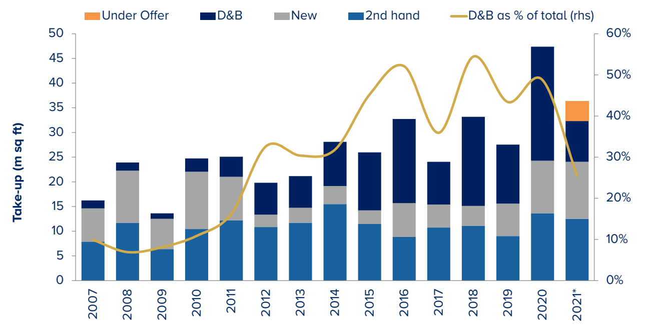


Fig 2: **DTRE Vacancy Rate now stands at 3.2% - the lowest on record**

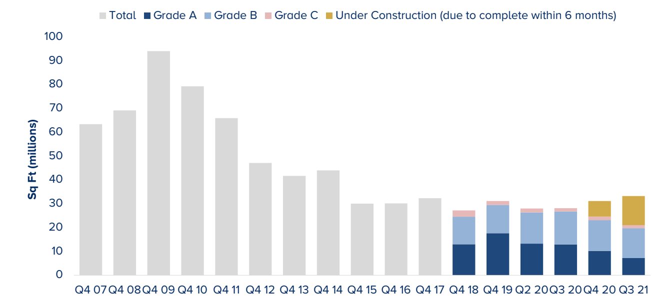


Fig 1: Source: DTRE; *End Q3
Fig 2: Source: DTRE

INVESTMENT MARKET

I feel that I have written the same opening statement to each of the investment sections of this report for the last three years, however, once again, there's no reason to change this quarter's opening statement, as the industrial and logistics investment market continues to show no signs of slowing down. Q3 2021 saw £2.5bn of single-let warehousing transact.

Fig 3: **The rolling annual average for all industrial is now £13.9 billion**

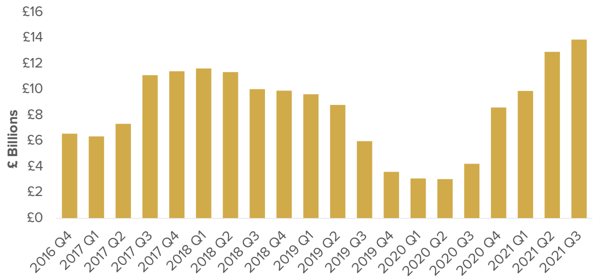


Fig 4: **Rents have risen sharply in 2021**

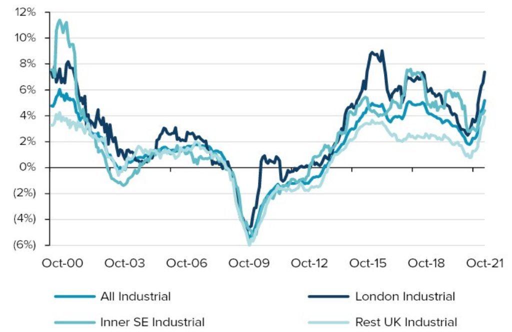


Fig 3: Source: DTRE/PropertyData
Fig 4: Source: IPD/MSCI/Panmure Gordon

The biggest deal of the quarter, and the year thus far, saw Blackstone, advised by DTRE, purchase Project Alaska, a 25 unit ASDA portfolio for £1.7bn. In addition, there was a further £862 million of single-let transactions.

2021 HAS WITNESSED £7.5 BILLION OF SINGLE-LET INVESTMENT DEALS, 14% AHEAD OF 2020'S FINAL TOTAL WITH THREE MONTHS LEFT

Exeter, advised by DTRE, purchased the Primark unit at Thrapston for £102m/4.1% NIY and The Very Group's sale and leaseback to Blackbrook Capital for £101.4m/3.8% NIY were the two biggest deals of the quarter.

In terms of vendors, the UK Funds continued to sell down when they saw an opportunity to make good returns. M&G sold two assets in the last quarter, both at 3.5% or keener and DTZ Investors, advised by DTRE, sold a DHL unit in Enfield for considerably ahead of asking.

Moving forward, DTRE are aware of another £935 million of single-let assets currently under offer or exchanged, which if all goes well, will take this year's annual total, together with the usual end of year flurry, to well past 2020's £6.5 billion and could see 2021 set a record for single-let investment volumes, with close to £9 billion expected to complete by year end.

We have mentioned all year in this report how we expected pricing to harden, particularly for 15 year plus income, which we stated would come into the low 3's and, whilst arguably that was proven earlier in the year with ABRDN's purchase of Amazon Hinckley for £102.4m/3.10% NIY, we are currently seeing further examples play out.

Panattoni's on-going sale of the recently let Ocado unit at Panattoni Park Luton is currently in the market at 3.25% NIY, whilst the funding opportunity of an Amazon at Mountpark Wakefield is currently in the market at £215m/3.75% NIY, and we expect the final price for both assets to be considerably ahead of quote.

With the occupational markets continuing to see sustained levels of requirements and demand, rental growth firmly on the agenda, as witnessed by Fig 4 opposite, there's no reason to assume, barring any unforseen macro economic headwinds, that the direction in which logistics sector is heading will change course anytime soon.

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