

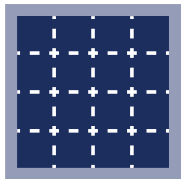
BIG BOX LOGISTICS OCCUPIER & INVESTMENT MARKET REVIEW

DTRE RESEARCH REPORT
JANUARY 2022

DTRE | RESEARCH

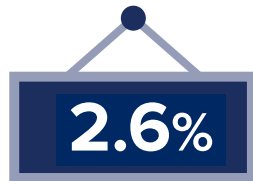
5 THINGS YOU NEED TO KNOW ABOUT BIG BOX LOGISTICS IN JANUARY 2022

1



Occupier take-up reaches **49.5 million sq ft** by end of **2021**, a new record

2



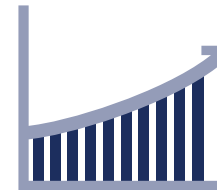
The DTRE Big Box National **Vacancy Rate** now stands at **2.6%**, a record low

3



Single-let investment volumes reached **£10.25 billion** in 2021, a new record

4



Rental growth (11.8%) and **yield compression** (down 55 bps) accelerated in 2021

5



Sub 5-year income to harden through 2022 and **ESG credentials** will become **ever more important**

OCCUPIER MARKET

2021 was a record year for occupier demand in the Big Box world with 49.5 million sq ft of take-up, a touch ahead of the previous record set in 2020 of 48.7 million sq ft. Whilst 2021 was a record year it should be viewed together with 2020 as the beginning of a new era for the Big Box.

Prior to the onset of the pandemic average annual demand for warehouses of 100,000 sq ft + was 27.1 million sq ft (2007-19), in the last two years that has leapt forward to 49.1 million sq ft, an increase of 81%.

The pandemic clearly has played a significant role in fast-forwarding the structural changes to e-commerce and the digital economy that were already underway and moving forward, looking at the requirements in circulation it's hard not see 2022 seeing demand once again being far ahead of anything we saw prior to Covid, as we emerge from the pandemic and into the 'new normal' for 'sheds'.

AVERAGE ANNUAL TAKE-UP HAS LEAPT 81% UP SINCE THE ONSET OF THE PANDEMIC

Some of the key points to highlight from the data are firstly the types of occupiers taking space. No surprise to see it was the retailers who accounted for 47.4% of all take-up last year, with Amazon alone once more accounting for 24% of all take-up.

When you combine the take-up by 3PL's, who often are running retail contracts, then it accounts for 75% of all

demand in 2021, with take-up by manufacturers plummeting to a decade low of just 14.5% (2009 at 11.4% was last time manufacturers took such little space as a proportion of take-up). Even as a total of sq ft, the last time manufacturing took such little space was 2013, which possibly highlights some shorter-term trends around Brexit, near-shoring and car production, particularly.

A second key point is in the size of units being taken – 28% of all take-up was for units of 300,000 sq ft plus. In 2020 this figure was 31.7% so although it has dropped back a touch it remains well ahead of the long-run average from 2008-19 (21%).

There has also been a significant increase in the rise of the XXL shed (500,000 sq ft +) which has accounted for 15% of take-up in the last 2 years, double what it has traditionally accounted for from 2007-19.

Finally, whilst demand has been buoyant the amount of built supply in the market is now at a critical low. DTRE Research has just 17.2 million sq ft of space readily available, with a further 8.4m sq ft under construction, due to complete in the next 6 months.

With just 17.2 million sq ft of readily available supply, the national Big Box vacancy rate now stands at 2.6%, the lowest number ever recorded. The dearth of space is particularly acute for units over 300,000 sq ft with just six units currently available, however there are a further 17 units under construction, which should help with the supply crunch.

Fig 1: Take-up for 2021 reaches 49.5 million sq ft

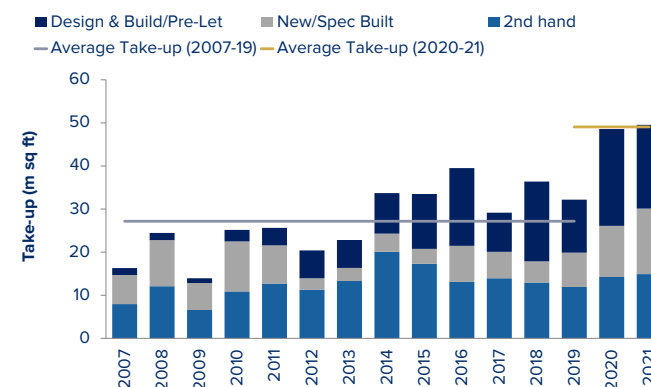


Fig 2: DTRE Vacancy Rate now stands at 2.6% - the lowest on record

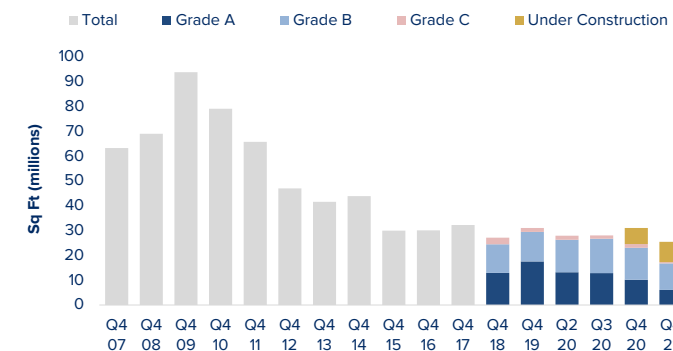


Fig 1: Source: DTRE
Fig 2: Source: DTRE

INVESTMENT MARKET

Fig 3: The last three quarters of 2021 saw just over £9 billion of single-let deals

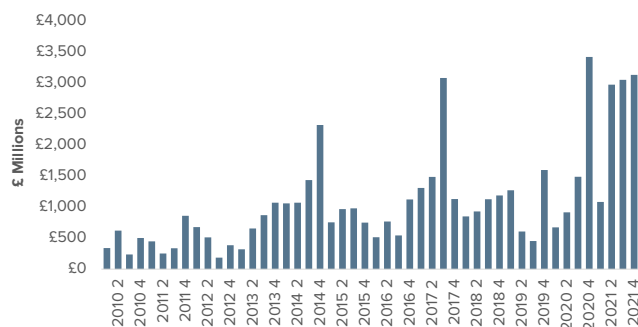


Fig 4: Yields have fallen sharply in 2021

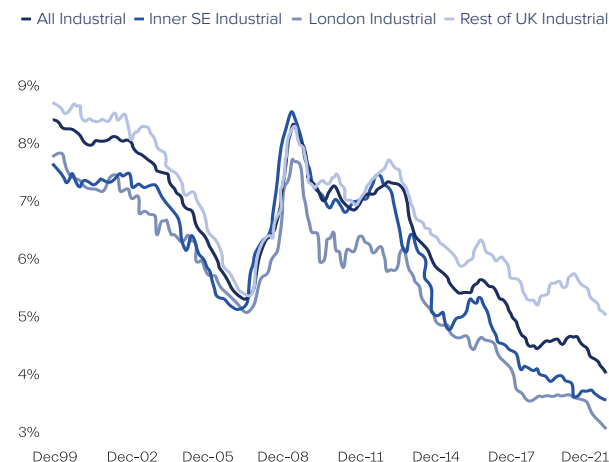


Fig 3: Source: DTRE/PropertyData
 Fig 4: Source: IPD/MSCI/Panmure Gordon

The sheer weight of capital chasing Big Box logistics assets propelled 2021 investment volumes to a record high, with £10.25 billion of assets trading hands in the last twelve months. Q4 2021 alone saw over £3.1bn of Big Box assets transact and in 2022 will expect to see a continuation of these elevated volumes.

Blackstone’s purchase of the Project Alaska Portfolio at £1.7bn was the biggest deal of the year and mirroring what we are seeing in the leasing market, at £10.25bn, volumes are well ahead of long-run averages.

Average single-let investment volumes from 2008-19 were £2.85 billion, with 2020 coming in at £6.5bn, and now 2021 at £10.25bn, a whopping 260% ahead of the long-run average.

AT £10.25 BILLION, INVESTMENT VOLUMES INTO BIG BOX ASSETS IN 2021 WERE 260% UP ON THE LONG-TERM AVERAGE SINCE 2008

The biggest spenders, unsurprisingly were Blackstone, who along with their respective JV partners in some instances, deployed £3.7bn into Big Box logistics assets in 2021, accounting for 36% of the entire market. Other big spenders were the UK Funds, with ABRDN (£530m), CBRE IM (£320m) and Savills IM (£240m) all active.

The biggest sellers of 2021 were largely US private equity, with Cabot, Valor and Westbrook all undertaking significant portfolio sales.

Two of the big themes seen in 2021 were, firstly, the rate of rental growth, which DTRE have measured at 11.8% on Big Boxes with London rents increasing by 75% in some locations, then, secondly, in relation to the huge rental gains being witnessed we saw significant yield compression as investors underwrites became increasingly aggressive in their attempts to access their piece of the rental growth pie. The average achieved net initial yield across all deals came into 4.45%, down from 5% at the end of 2020 and down from 8.4% just 10 years ago.

Moving through 2022 we believe we’ll continue to see strong pricing across all income bands, however, for sub five year income we think pricing will harden as investors underwriting assumptions will become more aggressive, both on the re-letting or void period as well as the rental growth potential.

In addition, there’ll be a continued flight to safety in long income and pricing for ESG compliant and ‘future-proofed’ warehousing will also harden.

Despite the prospect of interest rates rising through 2022, we don’t believe we will see yields move out in response. In fact the only area where we believe we may see a price correction is for tertiary assets, particularly those which will require significant capital expenditure to bring the unit up to speed in regards to new ESG standards.

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

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