RESEARCH

LOGISTICS & INDUSTRIAL

OCCUPIER & INVESTMENT MARKET COMMENTARY **H2 2015**

Economic overview

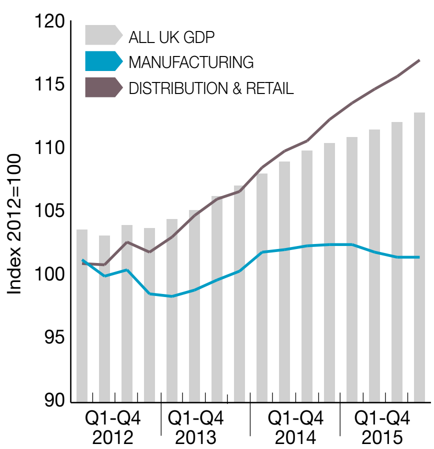
Economic growth is strong. Preliminary estimates of GDP growth show that the UK economy expanded by 0.5% in the final quarter of 2015, accelerating from 0.4% growth in the previous period. This brings GDP growth for the whole of 2015 to 2.2%, which is in line with market expectations and the Treasury's consensus forecast of 2.1% growth for 2016.

While manufacturing output remains flat, it is overall economic growth that is sustaining industrial occupier demand, which is coming from a wide variety of sectors related to retailing and associated distribution logistic operators (Figure 1).

Occupier market

Demand strengthened during the last six months of 2015, with a total of 18.8m sq ft of units above 50,000 sq ft acquired for occupation, bringing the total for the whole of 2015 to 35.6m sq ft. This is 12% above the level of take-up in H1 2015 and broadly in line with the five-year bi-annual average (Figure 2).

FIGURE 1
UK Economic output indices



Source: ONS

The Midlands continued to be the regional focus of activity in the second half of the year, with 40% of total take-up coming from this area, followed by London and the South East, which together accounted for a further 19%, and the North West region which accounted for 12%.

Pre-lets represented a significant proportion of deals in the second half of the year, accounting for 39% of take-up of units above 50,000 sq ft in the UK. This serves to highlight the continuing lack of supply and growing confidence in the market.

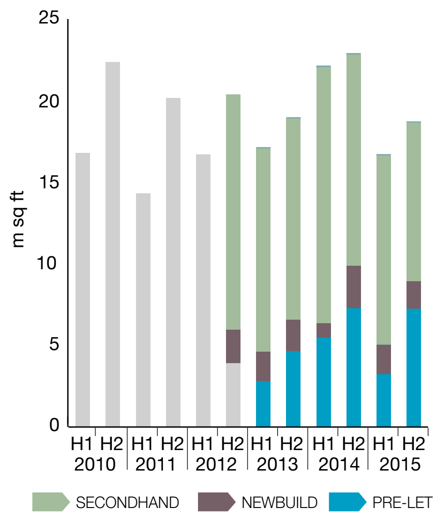
The occupier dominating the headlines is online retailer Amazon, who are continuing to build a delivery network around the country and have signed up for a number of high profile deals in the last six months. These include Mountpark Bardon (1.0m sq ft), Crossflow in Avonmouth (338,000 sq ft), Venus 110 Knowsley (110,000 sq ft), Lancashire Business Park, Leyland (168,392 sq ft), Gateway in Basildon (107,000 sq ft) and Victory Park in Sheffield (50,565 sq ft).

The increase in take-up has impacted on availability. In the big-shed market, new-build supply of units above 100,000 sq ft now stands at just 9.8m sq ft, which compares with a peak of 28.4m sq ft in Q1 2008 (Figure 3).

However we are starting to see more speculative development come through with 7.8m sq ft under construction across 47 buildings at the end of December 2015. We expect to see further speculative development in 2016, especially in the mid size unit market and around London and the South East.

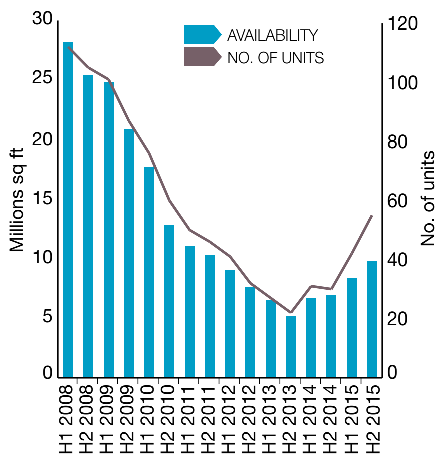
Please refer to our regional LOGIC reports for more detailed commentary.

FIGURE 2
UK Logistics take-up (50,000 sq ft plus)



Source: Knight Frank Research

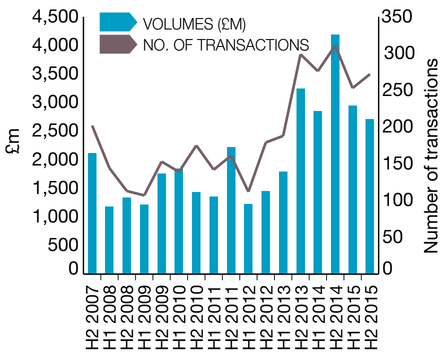
FIGURE 3
New sheds available (100,000 sq ft+)
Includes speculative development



Source: Knight Frank Research

FIGURE 4

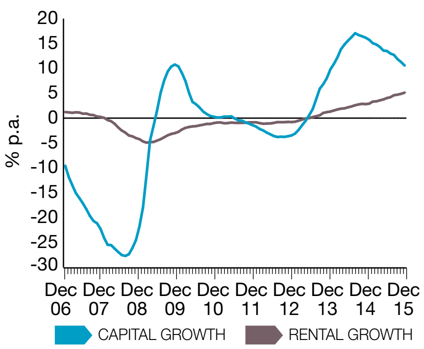
Industrial investment transactions



Source: Property Data / Knight Frank Research

FIGURE 5

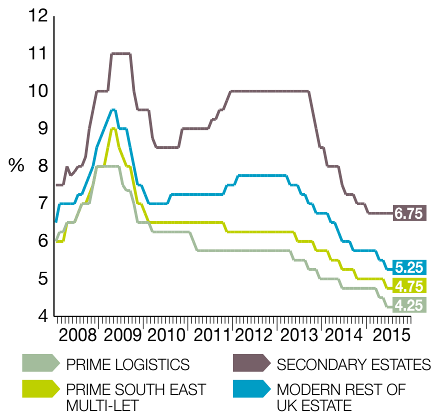
Industrial sector performance



Source: IPD

FIGURE 6

Single-let and multi-let warehouse yields



Source: Knight Frank Research

Investment market

Industrial investor demand has cooled somewhat in recent months, but is healthy nonetheless, especially when compared with the level of demand in the earlier years prior to 2014.

The latest figures from Property Data show that just over £2.7bn of industrial assets changed hands during the second half of 2015, down from £2.9bn in H1 2015. This brings the total for the whole of 2015 to £5.6bn, compared with £7.0bn in 2014 (Figure 4).

UK institutions were the most active investors during the second half of the year, closely followed by property companies and, though to a lesser degree, overseas investors.

There were fewer large deals in the second half of the year and the majority of transactions were completed by domestic investors. Tritax Big Box REIT remained active throughout 2015. Key investment deals in H2 include Tritax Big Box REIT's acquisition of Raunds, Warth Park for £67m (NIY 5.03%), and Wakefield, Knottingley for £59m (NIY 5.32%), Moor Park Capital Partner's acquisition of 103 Westerhill Road Glasgow for £55m (NIY 8.5%) and Legal & General's acquisition of Matrix Business Park, Chorley for £50.8m (NIY 4.2%).

The IPD Monthly Index shows that industrial performance is benefitting from accelerated rental growth. On an annualized basis, industrial rental growth now exceeds 5%, and is 92 bps above the IPD All Property Average of 4.2%, continuing the upward trend seen since October 2013. While industrial capital growth has slowed to 10.6%, allowing the market to re-adjust following the earlier period of high capital growth. (Figure 5).

Yields have remained more or less stable over the six months to December 2015, but are at their lowest level since October 2007, when the IPD All Industrial yield stood at 6.39% (compared with 6.50% at the end of December). Yields between prime and secondary assets are also still narrow by historic standards, with single-let distribution yields at 4.25%, and prime multi-let and secondary estates at 4.75% and 6.75%, respectively (Figure 6).

Selected warehouse / logistics transactions in H2 2015

Property	Vendor/Purchaser	Price	NIY	Date
Raunds, Warth Park	Roxhill Developments Plc/ Tritax Big Box REIT Plc	£67.0m	5.03%	Sep-15
Wakefield, Knottingley	Caddick Developments/ Tritax Big Box REIT Plc	£59.0m	5.32%	Sep-15
Westerhill Road, 103, Glasgow	Delancey/Moor Park Capital Partners	£55.0m	8.50%	Oct-15
Matrix Business Park, Chorley	BA Pension Fund/ Legal & General	£50.8m	4.18%	Jul-15
Wakefield Jct 31 M6	CDP Ltd/LondonMetric Property Plc	£39.4m	6.30%	Jul-15
Omega South, Warrington	London Metric Properties Plc/Miller Developments KUC properties	£30.0m	7.00%	Nov-15

Source: Knight Frank Research

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