LOGISTICS & INDUSTRIAL

OCCUPIER & INVESTMENT MARKET OVERVIEW **H2 2016**

Economic overview

The UK economy has held up well since the vote to leave the EU in the summer, ending the year with steady growth of 0.6% in Q4 for the third consecutive quarter. This brings the annual growth for the whole of 2016 to 2.0%, compared with 2.2% in 2015.

The distribution, retail and manufacturing sub-sectors have all seen above average growth in the final quarter, which has helped boost industrial occupier demand (Figure 1).

The UK distribution sector continues to benefit from the shift to on-line retailing, which has seen internet-based sales increase to 16% of all UK retail sales in December 2016. With one in four Christmas purchases on-line this is projected to double by 2023 (Figure 2).

Occupier market

Despite the uncertainty caused by Brexit, industrial occupier demand strengthened during the last six months of 2016, with a total of 21.7 million sq ft of units above 50,000 sq ft acquired for occupation during this period; up 34% on the level of take-up in H1 2016 and 14% ahead of the five-year bi-annual average. Total take-up for 2016 reached 37.9 million sq ft, up from 35.6 million sq ft in 2015 (Figure 3).

The Midlands remained the regional focus of activity in the second half of the year, with 38% of total take-up coming from this area, followed by London and the South East, which accounted for a further 22%, and the North West region (11%).

Although the Midlands continued to dominate, the key dynamic was the doubling of take-up in London and the South East to 4.8 million sq ft. This was boosted significantly by the 2.2 million sq ft letting to Amazon at St Andrews, Tilbury. Amazon were again highly active with H2 deals including Graviton Belvedere (107,804 sq ft), Rugby Gateway (290,000 sq ft), Big Stan Stoke (219,686 sq ft) and IP2CI – Port Doncaster (1.1 million sq ft and 214,600 sq ft).

In the big shed market (units above 100,000 sq ft), supply stood at just 6.8 million sq ft at the end of 2016, compared to a 10 year average of 13.8 million sq ft (Figure 4).

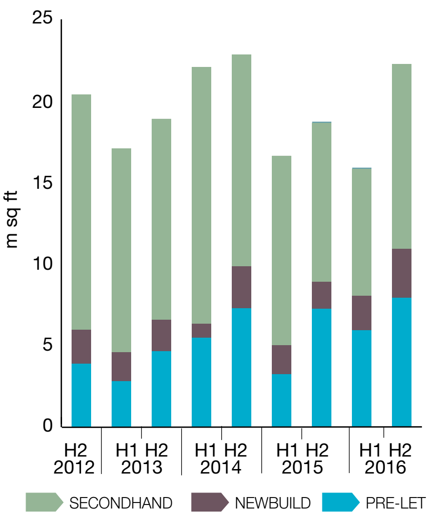
The shortage of new and good quality space across all size ranges is driving occupiers to commit to space through pre-letting or Design & Build options.

Although the pre-vote slowdown prior to Brexit had impacted on speculative development, recent speculative schemes have re-positioned rents ahead of historic prime levels and we expect rental growth to continue throughout 2017.

For more detailed commentary on the occupier markets, please refer to our regional LOGIC reports.

FIGURE 3

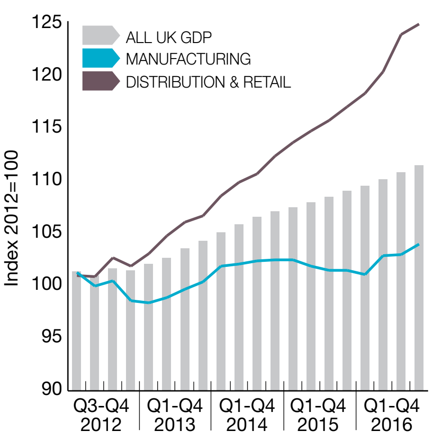
UK Logistics take-up (50,000 sq ft plus)



Source: Knight Frank Research

FIGURE 1

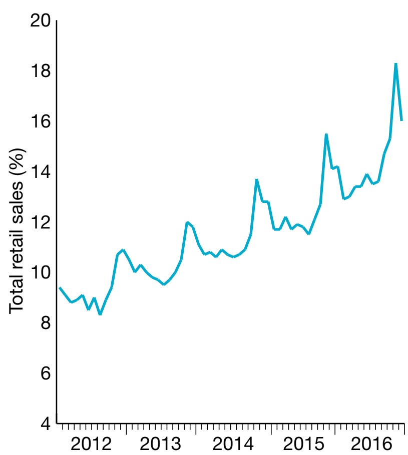
UK Economic output indices



Source: ONS

FIGURE 2

Internet's share of UK retail sales

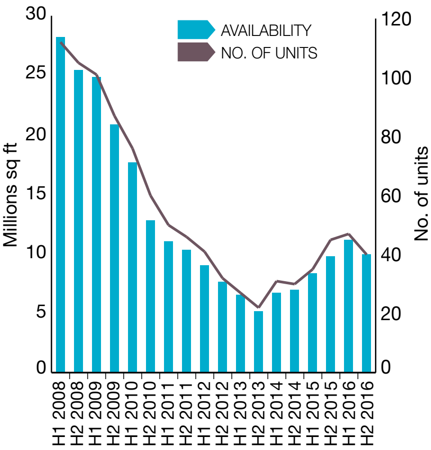


Source: Knight Frank Research

FIGURE 4

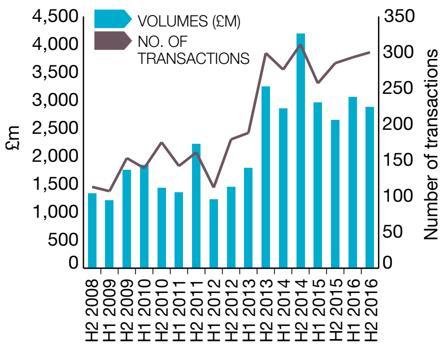
New sheds available (100,000 sq ft+)

Includes speculative development



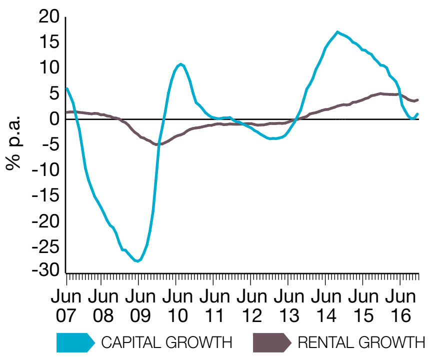
Source: Knight Frank Research

FIGURE 5
Industrial investment transactions



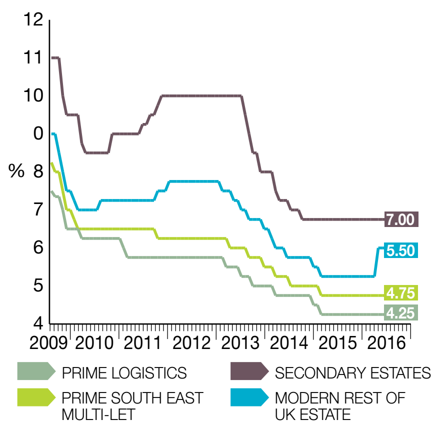
Source: Property Data / Knight Frank Research

FIGURE 6
Industrial sector performance



Source: IPD

FIGURE 7
Single-let and multi-let warehouse yields



Source: Knight Frank Research

Investment market

Appetite for industrial stock remains strong, with investors continuing to be attracted to the sector's strong income component and postive market fundamentals. The latest figures from Property Data show that just over £2.9bn of industrial assets changed hands during the second half of 2016. Whilst this is marginally lower than H1 2016, the total out-turn for 2016 was £5.9 bn – which is a 6% increase on 2015 volumes (Figure 5).

Key investment deals during the second half of the year included Tritax's acquisition of Raunds, Warth Park, for £101.8m (NIY 5.10%), the Hut Group's acquisition of Omega South, Warrington, for £53.7m (NIY 6.60%) and Buckinghamshire County Council's acquisition of Knaves Beech Industrial Estate, High Wycombe, for £21.4m (NIY 6.99%).

Property companies were the most active investors during the second half of the year accounting for a third of all activity, closely followed by UK institutions (31%) and, though to a lesser degree, overseas investors (18.%).

The IPD Monthly Index shows that both capital and rental value growth slowed during H2. Whilst this was in line with the general slowdown across the whole of the UK commercial property market, industrials were the only sector to see positive capital value growth of 1.0%, with South East Industrials outperforming all other segments, achieving annual capital growth of 4.9%. Industrials also enjoyed the highest rental value growth of 3.8%, compared with an IPD All Property Average annual rental growth 2.0% (Figure 6).

While industrial yields decreased slightly towards the end of the year, they have remained more or less stable with the IPD All Industrial Equivalent Yield returning back to the level recorded at the start of 2016 (6.4%). This is the lowest level recorded since October 2007. Yields between prime and secondary assets are still narrow by historic standards, with prime multi-let and secondary estates at 4.75% and 7.00%, respectively (Figure 7).

Selected warehouse / logistics transactions in H1 2016

Property	Vendor/Purchaser	Price	NIY	Date
Raunds, Warth Park	Roxhill Developments Ltd/ Tritax Bigbox REIT Plc	£101.8m	5.10%	Dec-16
Omega South,Warrington	London Metric Property Plc/ The Hut Group	£53.7m	6.60%	Nov-16
Knaves Beech Industrial Estate, High Wycombe	Aviva Investors/ Buckinghamshire County Council	£21.4m	6.99%	Oct-16
Chessington Park Industrial Estate	Eskmuir Properties Ltd/ Royal London Asset Management Ltd	£18.07m	4.96%	Sep-16
London Distribution Park	Roxhill Developments Ltd/ Legal & General Property	£150.0m	5.25%	Aug-16
Vertex Park	Stoford Developments Ltd/ Aberdeen Asset Management	£12.1m	4.98%	Jul-16

Source: Knight Frank Research

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