

Big Shed Briefing

January 2015



Magna Park Milton Keynes where IDI Gazeley are constructing a 940,000 sq ft unit for Waitrose

SUMMARY

■ 2014 has seen previously unheard levels of take-up in the logistics sector with take up rising 73% to reach 32.6m sq ft across the UK.

■ Not only has the amount of property transacted by space taken, but Savills tracked 149 separate deals, only the second time the annual deal count has exceeded 100.

■ An increased amount of deals over 500,000 sq ft has seen the average deal size rise to 232,000 sq ft.

■ The retail sector dominates the market but the strong performance of the manufacturing sector in the wider economy has seen the proportion of

space apportioned to manufacturing rise from 20% to 24%.

■ The availability of buildings over 100,000 sq ft is the lowest since Savills started recording data on the market, standing at just 22m sq ft.

■ Savills are currently tracking 15 logistics schemes over 100,000 sq ft through the development pipeline across the country totalling 3.54m sq ft. Of this, 10 units are currently under construction due for delivery through 2015. The 5 remaining schemes have been announced and await detailed planning consent to proceed.

■ Following record investment volumes

in 2013 of £2.7bn into the logistics sector the market has remained buoyant with investment volumes reaching £4.2bn. The 54% increase in volumes has once again ensured a record year for the sector.

.....
“The most remarkable set of numbers I have ever reported, on both the occupational and investment logistics markets”

Kevin Mofid, Head of Industrial & Logistics Research
.....

→ Take-up

■ At a nationwide level take-up levels have been astonishing. Across the UK the amount of space transacted has risen by 73% from 2013 and reached 32.5m sq ft for 2014. This equates to the highest amount of yearly take-up since Savills started recording data on the market.

■ In terms of deal count we recorded information on 149 separate deals, only the second time in recent history the deal count for the year has been over 100.

■ Across the regional markets, nearly every region that Savills records data on has seen take-up surge. The East Midlands alone, driven by almost 2m sq ft of build-to-suit deals has seen take-up rise by 3.5m sq ft to 6.4m sq ft.

■ Combined, the East & West Midlands areas accounted for 40% of all take-up in 2014, which demonstrates the importance retailers are placing on being located in the centre of the country.

■ The only region which saw take-up levels lower was the South West, by 150,000 sq ft over the course of 2014. However, the market is severely under supplied and therefore occupiers are struggling to fulfil their requirements.

■ The increase in the number of large deals, particularly over 500,000 sq ft have seen the average size deal in the market increase to 232,000 sq ft.

■ The largest deal of the year saw Primark take just over 1m sq ft at Thrapston where LondonMetric will develop a unit for the discount retailer. The largest deal on existing stock for 2014 was Amazon taking 995,957 sq ft at the former Tesco unit Bigfoot, near Daventry.

■ In terms of occupier profile, retailers are still the dominant force in the market, accounting for 47% of all space transacted in 2014. When we add in known retail contracts within the 3PL sector this figure rises further.

■ The positive sentiment surrounding the manufacturing sector has seen take-up rise accounting for 24% of the market, up from 20%. Interestingly, occupiers in this sector have been active in all areas of the market taking poor quality second hand space through to large build-to-suit units. For example Jaguar Land Rover took 477,147 sq ft at ProLogis Park in Minworth as they increase production further.

■ Rental growth in core markets is now becoming a reality, driven by lack of stock and unprecedented occupier demand.

Availability

■ The strong levels of occupier demand throughout 2014 and the lack of large scale speculative development has seen the availability of existing units fall to record lows.

■ From a peak of 94m sq ft in 2009, the supply of existing units over

100,000 sq ft on the market now stands at just 22m sq ft (England only). A fall of almost 47% year-on-year.

■ At a regional level the East Midlands currently has the most existing supply, standing at 5m sq ft across 29 units over 100,000 sq ft. Of those units Savills would only classify eight as Grade A modern supply. Indeed, across the country Grade A supply stands at just 10.3m sq ft.

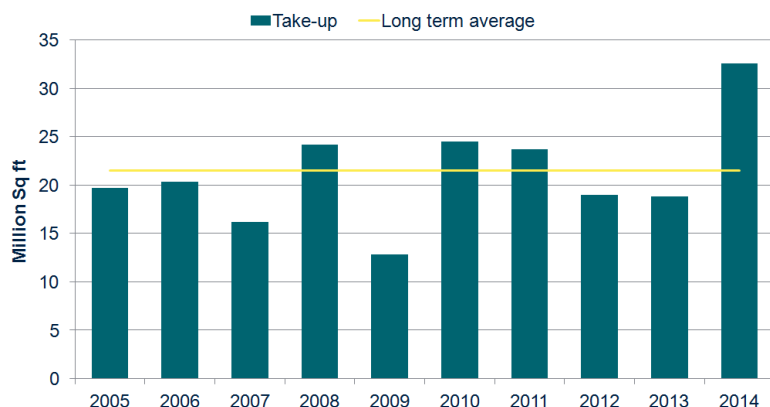
■ The largest building currently on the market is Sherburn 550 in North Yorkshire. Construction is currently underway to merge two smaller units to create a single unit totalling 550,336 sq ft. Once complete this will be the only unit in the UK on the market over 500,000 sq ft.

■ This drastic fall in supply has not however resulted in developers rushing to develop units speculatively in the same volumes as the last cycle.

■ Savills are tracking 15 logistics schemes over 100,000 sq ft through the development pipeline across the country totalling 3.54m sq ft. Of this 10 units are currently under construction due for delivery through 2015. The 5 remaining schemes have been announced and await detailed planning consent to proceed.

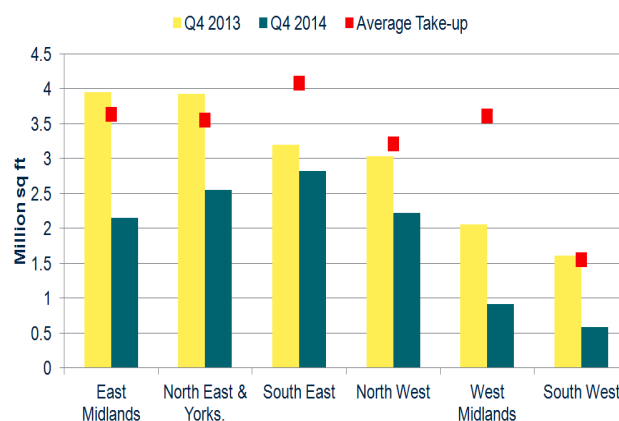
■ Of the speculative schemes completed to date five units were let before completion and four units totalling 629,000 sq ft are now being let on the open market. The largest being 310,000 sq ft at Prologis Park in Dunstable.

GRAPH 1
Record Levels of take-up



Graph source: Savills

GRAPH 2
Take-up levels exceed supply



Graph source: Savills

→ Investment

■ Following record investment volumes in 2013 of £2.7bn into the logistics sector the market has remained buoyant with investment volumes reaching £4.2bn. The 54% increase in volumes has once again ensured a record year for the sector.

■ Investor demand for logistics remains incredibly strong, with UK funds, REITs and overseas buyers all remaining active in the market. However, this strong demand and desire to deploy capital has stretched the definition of prime to varying degrees.

■ Whilst some new entrants to the market did have an impact on investment volumes the market was dominated by established players consolidating their position with just over a third of all transactions by value accounted for by just 6 companies: Tritax, Legal & General, LondonMetric, ProLogis, Blackstone and Segro.

■ Savills prime yields for distribution warehouses ended the year at 4.75%, a 100bps inward shift during the calendar year. As the availability of genuine prime has been relatively scarce, investors have substituted prime with more secondary assets.

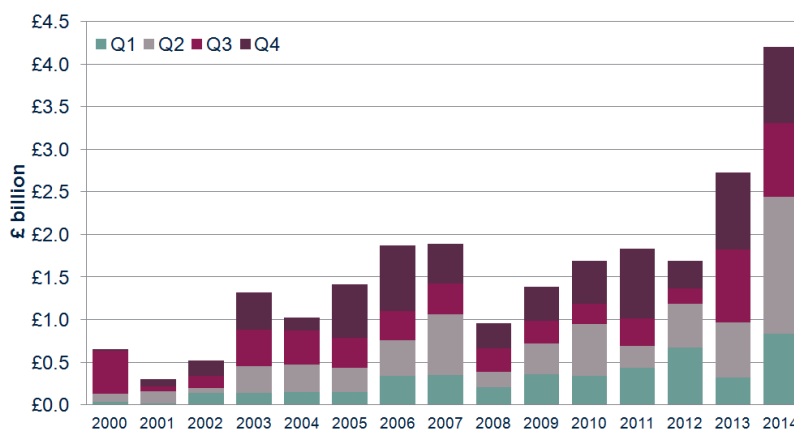
■ This has resulted in strong yield compression and contributed to the high total returns expected for the year. Using the IPD monthly index we estimate Total Returns for logistics property to be 23.8% for the year, comparing favorably with the "All Property" sector which stands at 19.3%.

■ For 2015 we expect some downside geopolitical risk to the market. However, we expect funds to continue to flow into the UK markets with industrial remaining a desired sector due to its favourable characteristics (low obsolescence, land squeeze from higher value uses) and alignment with changing consumer retail habits.

■ Whilst there remains room for further yield compression we do not expect to see a further 100bps inward movement this year. Total returns will fall however with rental growth emerging in key markets we forecast returns for the sector this year to be 12% - 15%.

GRAPH 3

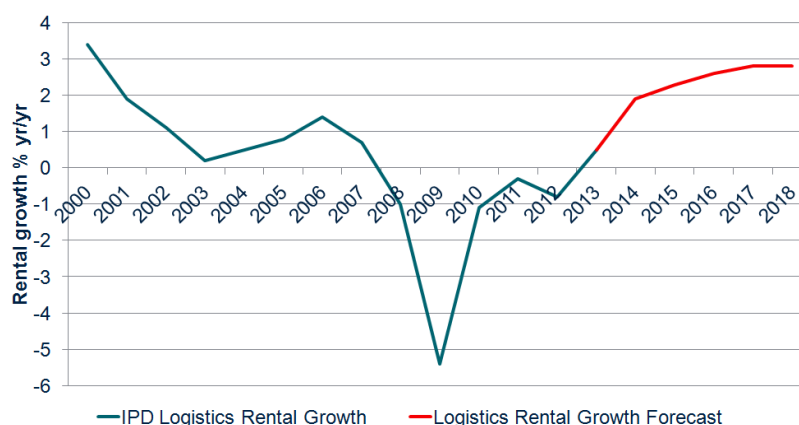
Total big shed investment volumes



Graph source: Savills; Property Data

GRAPH 4

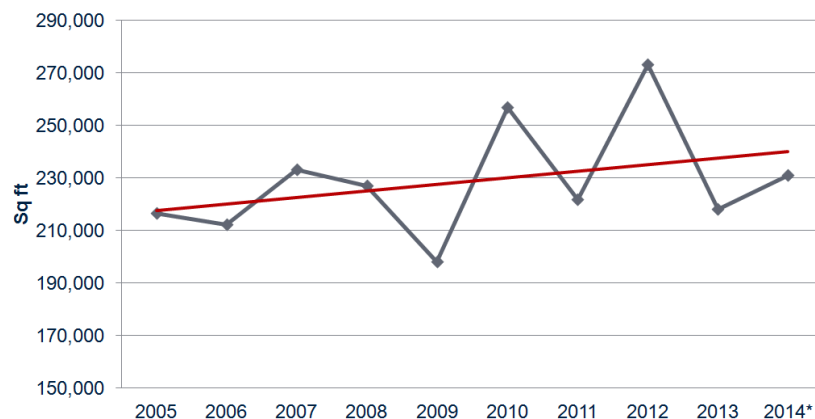
Rental growth as supply falls?



Graph source: Savills, RealFor, IPD

GRAPH 5

Average deal size increasing



Graph source: Savills

OUTLOOK

The surge in take-up has increased investor and developer confidence but speculative development will not flood the market.....

■ The increase in take-up has seen supply levels fall drastically. Whilst this has resulted in some speculative development in core markets, in most cases supply levels remain below long-term take-up averages.

■ More speculative development will be announced in 2015, but we expect this to be in core markets and to be delivered in a very considered manner depending on localised market conditions.

■ These market drivers are finally starting to show sustained rental growth in the IPD indices. We expect this trend to continue throughout 2015 as landlords hold firm for increases in headline rents.

■ Whilst there remains room for further yield compression we do not expect to see a further 75bps inward movement this year. Total returns will fall however with genuine rental growth emerging in key markets we forecast returns for the sector this year to be 12% - 15%.

Key Occupier Data

Current Grade A / new supply (over 100,000 sq ft):

10.3m sq ft, down 40% year-on-year

Five year average annual take-up:

21.5m sq ft

Average Deal Size:

232,000 sq ft

Key requirements 2015:

North West;

Poundland - 350,000 sq ft

Misguided - 250,000 sq ft

Midlands;

Arco - 300 - 600,000 sq ft

Aldi - 35 Acres

South;

Lidl - 400,000 sq ft

Arcadia - 400-500,000 sq ft

Travis Perkins - 500,000 sq ft -

1million sq ft

Yorkshire;

TK Maxx - 600,000 sq ft

DHL - 400-500,000 sq ft

Key Investment Data

Big Shed Prime Yields

Long-term income: 4.75%

Medium-term income: 5.25%

Short-term income: 6.00%

2014 key deals

Next, Doncaster - 25 year sale and leaseback. Acquired by Legal & General. £90m +, 4.5%

Bunzl & DAU Draexlmaier, 9.25 years unexpired. Acquired by Aberdeen Asset Management. £33.73m, 5.06%

Tesco.com, Croydon - 5 years unexpired. Acquired by LondonMetric. £21.1m, 5.5%

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Savills plc

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