Industrial Intelligence

Autumn 2015

BiLFINGER | GVA

Omega Warrington Ltd.
A joint venture between Miller Developments and Royal Bank of Scotland. Occupiers include Brakes, Hermes, Travis Perkins, ASDA, The Hut Group and Plastic Omnium.

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Thames Gateway Park, Dagenham.
A development by Ravenbourne and Standard Life Investments

UK Occupier overview

- **Take-up of modern distribution units over 100,000 sq ft amounted to 11.6 million sq ft during the first half of 2015 across the country.** This is 14% above the five year six monthly average.

- **Demand continues to be led by the retailers.** Whereas a number of food retailers satisfied their requirements last year, non-food retailers and particularly discount and etailers have been the most active this year.

- **The largest deal to date was to Next, a 703,000 sq ft pre-let at West Moor Park, Doncaster.** In nearby Wakefield TK Maxx are taking 650,000 sq ft and Poundworld has agreed a 524,000 sq ft pre-let in what has been a strong year for Yorkshire. Take-up around the country was markedly stronger during Q1 with deals above 500,000 sq ft including Ocado in Erith, John Lewis in Milton Keynes and Dunelm in Stoke-on-Trent.

- **Among more recent deals, Prologis' 341,000 sq ft speculative unit DC7 at Grange Park, Northampton has been let to Clipper Logistics and B&M Bargains recently took 460,000 sq ft in Middlewich.** This year there has been an increased level of design and build, particularly in areas with low availability and this has accounted for just over half of take-up.

- **Internet retailing remains a strong driver of growth.** Amazon has been the most active occupier. In August the company took two distribution warehouses from Logicor on ten year leases, 257,855 sq ft in Bardon, Leicestershire and 304,751 sq ft in Weybridge, Surrey. In the North West Amazon has taken the 110,000 sq ft speculative unit Venus, in Knowsley as well as 246,000 sq ft in Doncaster. Amazon is also in advanced negotiations to build in a number of locations, such as Roxhill's London Distribution Park, Port of Tilbury.

- **While the summer has not been as busy as the beginning of the year for big shed deals, a number of requirements indicate that activity levels will rebound.** B&M have an ongoing 750,000 sq ft requirement in the Midlands, The Range has a similar sized requirement in the South West and Aldi and Lidl remain active.

- **There are many requirements between 20,000 sq ft and 50,000 sq ft.** Mid-range manufacturing SMEs who have weathered the economic storm, are dusting off expansion proposals and showing increased corporate activity. Jaguar Land Rover goes from strength to strength and in the North West there is activity from Alstom train assembly and re-conditioning.

- **Having declined year on year since 2010, the supply of existing grade A big sheds remains tight but has turned the corner as speculative completions continue to increase** (there is almost 4 million sq ft of speculative space under construction or with an imminent start in the Midlands alone). Availability has also increased through occupiers upgrading to design and build deals and releasing secondhand space.

- **Demand for development sites is still extremely strong in the South East from both developers and investors.** At Barking Power Station, Dagenham there were recently over 20 bids chasing the 40 acre site, with several bids in excess of £50 million rejected. Other sites that have received keen interest include 32 acres in Hemel Hempstead, owned by the HCA and the Ford site in Southampton, which extends to 25 acres.

- **In north Bristol, Marcol and St Francis Group has submitted detailed planning permission for over a million sq ft of mixed use on the former Rolls Royce site at Filton, with planned industrial units between 20,000 and 120,000 sq ft.** There has not been a scheme of this magnitude in the region since Aztec West 20 years ago.

- **Improvement in development viability continues in spite of annual industrial tender price growth of 8% to Q2.** Annual construction orders have increased 15% for warehouses and 10% for factories over the same time period, with industrial construction output forecast to increase by 26% over the four years to 2018.

330,000 sq ft Arrow, Worksop. Let by Bilfinger GVA to Spanish food manufacturer Siro UK.

Major Recent Deals in Yorkshire and the North East			
Property	**Occupier**	**Sq ft**	**Deal type**
West Moor Park, Doncaster	Next	703,000	D&B
Crosspoint Wakefield, Knottingley, Wakefield	TK Maxx	650,000	D&B
XL Link 62, Normanton, Wakefield	Poundworld	524,000	D&B
Markham Vale	Great Bear	480,000	D&B
Hillthorne BP, Sunderland	Vantec	436,000	Pre-sale
Arrow, Worksop	Siro UK	330,400	Letting
Bays 1-4 Dearne Mills, Barnsley	CDS Superstores (The Range)	256,000	Letting
V246, Firstpoint, Doncaster	Amazon	246,000	Letting
Strata, Thorne, Doncaster	Howden Joinery	137,000	Letting
Cherry Blossom Way, Sunderland	Amazon	100,000	Letting

Key Available Units in Yorkshire and the North East			
Property	**Size**	**Grade**	**Quoting rent (£ psf)**
Sherburn	550,000	Built circa 2005	£4.75
G Park, Wakefield	280,000	Modern	£4.75
Wakefield Eurohub	190,000	Secondhand	£4.75
Tri-Link Park, Wakefield	142,000	Under construction	£5.75
Mountpark Wakefield	133,000	Under construction	£5.75

In Focus:
Yorkshire and the North East

Demand from discounters and internet retailers is driving the big shed deals, illustrated by the table opposite. The beginning of the year was very active and while sentiment remains steady, enquiries dropped during Q2, a similar trend to the rest of the country.

The largest deals in Yorkshire were also amongst the largest in the UK: Next, TK Maxx and Poundworld. In Sunderland, Vantec, Nissan's main logistics provider, has committed to a 436,000 sq ft warehouse which will be ready in December this year. This is in addition to its existing 360,000 sq ft unit built two years ago. Amazon has also acquired a 100,000 sq ft facility in Washington.

With the lack of larger grade A space in Yorkshire (only a handful of big sheds are available, as illustrated in the table opposite) and increased demand, there has been a rise in design and build agreements in sizes over 100,000 sq ft. At Junction 31 of the M62, two units of over 100,000 sq ft are being speculatively developed and both are close to practical completion. Yorvale, Kier and Maple Grove are developing the 142,000 sq ft Tri-Link Park, whilst Stoford and Mountpark have the nearby 133,000 sq ft Mountpark Wakefield. Verdion have recently started the speculative development of two units, 215,000 sq ft and 130,000 sq ft, at iPort in Doncaster, with completion expected in Q1 2016.

In the North East, a number of big shed deals at the turn of last year has left little availability over 100,000 sq ft. With no large scale speculative development underway, big shed requirements will need to go down the design and build route, such as Vantec's new building next to Nissan. Bilfinger GVA have just brought Graphite's 115,000 sq ft purpose built waste recycling facility to the market and it is attracting a high level of interest.

Demand in the mid-size range has been good, particularly occupiers linked to internet retail. Examples include John Lewis taking a 50,000 sq ft pre-let at Logic Leeds, and parcels company Fedex taking the nearby 50,000 sq ft Connex 50 unit, whilst in the North East Geopost has taken a 50,435 sq ft former Citylink unit at Belmont in Durham.

The majority of demand from manufacturing component suppliers is in this size range too. For example, in the North East Chirton Engineering have taken 52,000 sq ft in North Tyneside.

There has been a limited number of speculative units and schemes in the mid size range in Yorkshire, some now complete, and others under construction. These include a 50,000 sq ft unit at Victory Park, Sheffield, units of 22,000 and 30,000 sq ft at the AMP in Rotherham, and the 30,000 and 50,000 sq ft units at Connex in Leeds. The majority undertaken to date had some form of public sector assistance; this is unlikely to be the case to such a degree in the future. There have also been some smaller speculative developments in the North East which have proved highly successful. Hellens Developments have constructed two small unit industrial schemes totalling 52,000 sq ft which have achieved full occupancy within 12 months of completion.

At Portobello Trade Park, near Birtley, Ravensworth Developments have recently completed a 100,000 sq ft scheme consisting of 15 units ranging from 2,000 to 22,000 sq ft. One of the most significant developments underway is at Mandale Park in Durham which will provide 178,000 sq ft of space. Work has recently started on the first phase of 48,000 sq ft which will be ready early next year.

Among signs of improved confidence and lending conditions in the market, occupiers are committing to longer leases, and for units up to around 50,000 sq ft, interest in purchasing is increasing. Occupiers are paying strong prices for secondhand freehold premises, due to their scarcity. In the North East, the offshore sector is currently subdued due to the low oil price, but if it increases, there will be more activity from this sector. In the Tyne, Tees and Humber areas, the construction and maintenance of offshore wind projects is feeding through to occupier requirements and take up.

There continues to be a good supply overall of developer held land available to occupiers for design and build, although this varies considerably between the towns and cities in the region. However, there remains limited opportunity for occupiers or developers to acquire land without tie. We are advising an occupier on the sale of a 10 acre site at Wakefield, off Junction 40 of the M1, for which a planning application is currently with Wakefield Council. There is already considerable interest, with numerous developers tracking the site.

Farmfoods, Central park, Avonmouth

Recent transactional evidence							
Location	Area Sq ft	Unexpired Lease Term (Break)	Rent £/psf	Tenant	Price	Yield	Date
Ventura Park, Radlett, Herts (SWAP)	578,000	4 years (2.5 years)	£7.18	Multi let	£66,000,000	6.0%	Sep-15
Brackmills, Northampton (SWAP)	298,850	13 years	£5.20	ASDA	£31,000,000	4.7%	Sep-15
Quadrant Park, Welwyn Garden City	116,851	7.6 years (4.3 years)	£7.53	Multi let	£16,800,000	4.95%	Aug-15
The Oxgate Centre, Staples Corner	80,000	10 years (8.5 years)	£9.09	Multi let	£14,750,000	4.65%	Aug-15
Matrix Business Park, Chorley	421,810	27 years	£5.32	Waitrose	£50,800,000	4.18%	Jul-15
JCT 31, M62, Wakefield	525,000	15 years	£4.76	Poundworld	£39,400,000	6.30%	Jul-15
Centrum 100, Burton-upon-Trent	433,000	30 years	£3.70	Holland & Barrett	£34,200,000	4.39%	Jul-15
Waterway Park, Hayes	139,970	7.5 years (3 years)	£9.40	Multi let	£23,700,000	5.30%	Jul-15
Coventry Business Park, Coventry	210,821	10 years	£7.02	Palmer and Harvey	£22,875,000	6.11%	Jul-15
Orion Park, Dagenham	65,746	25 years	£11.50	DPD Geopost	£17,220,000	4.15%	Jul-15
Project Ginge	3,514,500	2.4 years	£4.46	Portfolio	£192,100,000	7.77%	Jun-15
Markham Vale, Chesterfield	480,000	15 years	£4.75	Great Bear	£36,000,000	6.00%	Jun-15
Brook Industrial Estate, Hayes	45,846	5 years (8.5 years)	£10.72	Multi let	£9,100,000	5.1%	Jun-15

UK distribution investment market

Investment in distribution warehouses across the UK amounted to £1.7 billion (Property Data) during the first half of 2015. This compares to £1.9 billion over the first half of last year and a five year six monthly average of £1.3 billion.

UK property companies made up the highest proportion of investor type by volume at 41%, with overseas investors making up 26%. UK institutional buyers have also maintained a strong interest in the market, concluding purchases of more than £430 million in the first half of the year, with Standard Life and Legal and General being particularly acquisitive.

With the low level of supply and occupiers facing less choice, incentives have come in sharply, longer lease lengths are being signed and industrial rental growth has recovered strongly. The annual rate of rental growth for industrial property to August on the IPD monthly index was 4.2%, compared to 2.2% over the previous 12 months, driven by the strongest growth in the South East.

Demand for UK property from both domestic and overseas buyers has continued to apply downward pressure to industrial property yields, which fell by 36 basis points over the first eight months of the year (IPD Monthly Index). This compares to all property which saw a smaller downward move of 24 basis points. The office sector saw a 28 point downward shift, whilst the retail sector moved in by 16 basis points.

However, the pace of downward yield shift is now easing, and is only being partially offset by the improving rental growth performance. Industrial annual capital value growth peaked at 17.1% in October 2014, and is now 13% (IPD Monthly Index, August 2015). This is still an impressive performance, and produced a total return of 20.1% pa in August, down from 21.7% three months ago and a peak of 25.3% last October.

There has been a continued shortage of quality product in the UK distribution investment market, resulting in strong competition. Investment demand for quality industrial estates which are either fully let or offer potential realistic asset management opportunities significantly outstrips supply especially in Greater London and the South East.

We are aware of major requirements from institutional investors including Aberdeen, Aviva, Blackrock, CBRE GI, Cornerstone, DTZ Investors, Henderson and L&G.

Market sentiment remains positive with strong competition for prime assets and good quality secondary estates, owing to an improving occupational market and strong rental growth prospects. Notable recent transactions include Standard Life's purchase of Ventura Park, Radlett in Hertfordshire, for £66.7 million, representing a net initial yield of 6.0%. The 578,000 sq ft, 15 unit estate was part of a property SWAP with SEGRO. In return SEGRO acquired the 300,000 sq ft ASDA unit in Brackmills, Northampton for £31 million, reflecting a net initial yield of 4.7%. GVA acted for Standard Life in the SWAP transaction. In addition, the sale of the Geopost forward commitment in Dagenham to a private investor for 4.15% demonstrates the demand for industrial product within the M25.

A number of multi-let estates sold over the summer period were hotly contested with prices agreed earlier in the year. Due to the lack of institutional grade product and considerable weight of funds these estates could achieve a premium if traded in the final quarter.

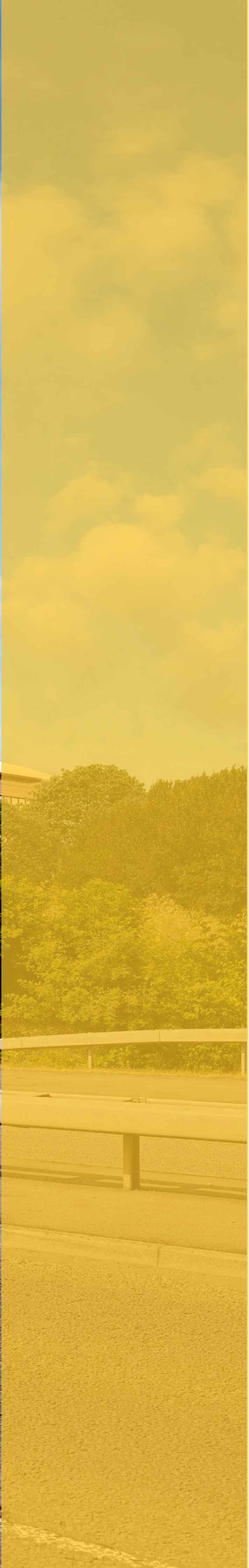
Outlook for performance

We expect average rental value growth for UK industrial property of 4.3% for 2015 as a whole, which would represent the strongest year since 2000. We forecast growth to average 3.3% pa over the subsequent four years, with London and the South East outperforming the UK figure.

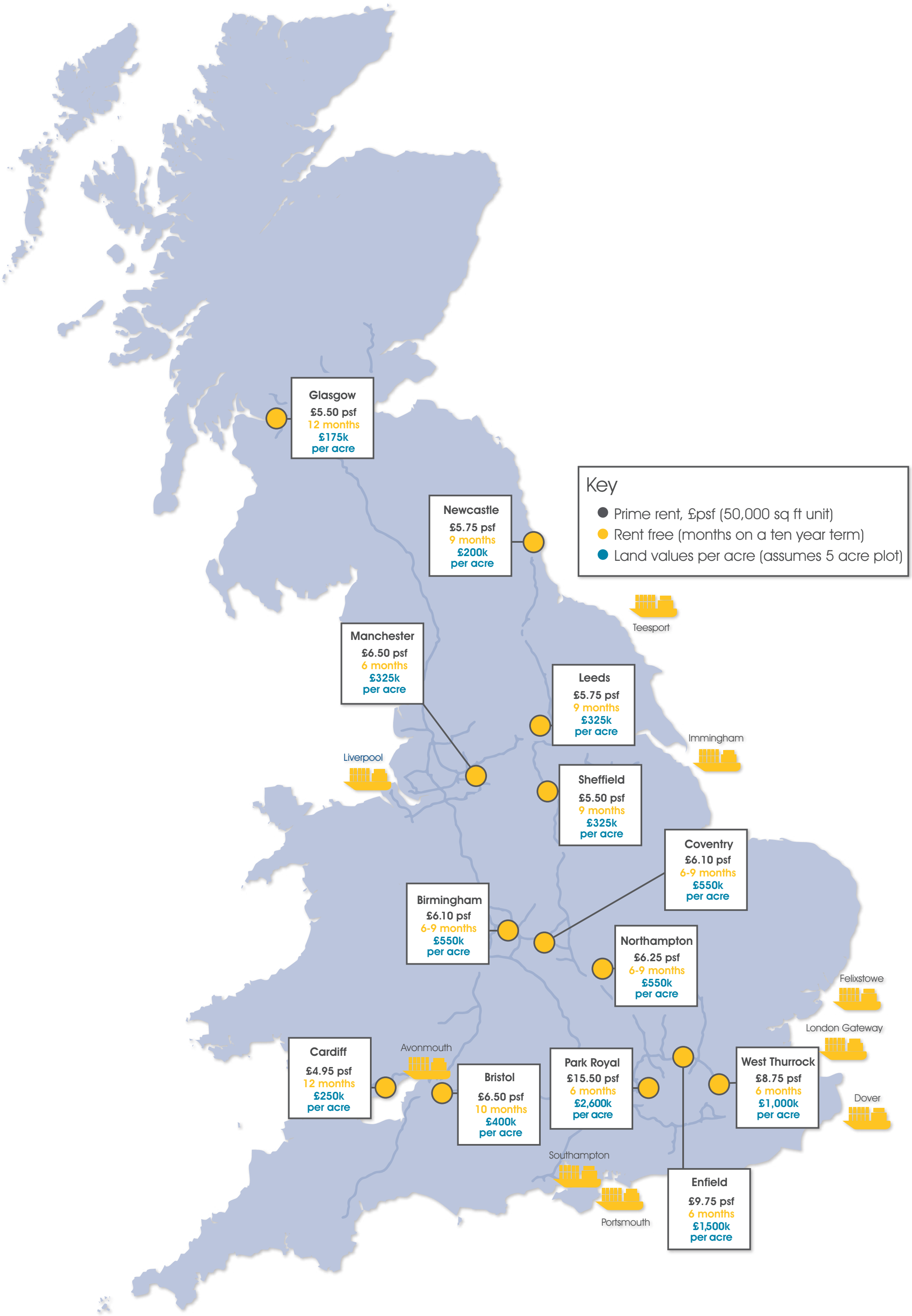
The outlook for the next 12 months remains very positive. There is certainly the potential for further downward yield movement. The distribution market is still looking an attractive opportunity, and although the yield gap between London and the regions has narrowed over the last 12 months, it remains historically wide.

We expect the total return to continue decelerating modestly during the rest of 2015, but should still be approaching 14% pa by the end of the year. This is an extremely strong level of performance, We expect a lower, but still strong total return of more than 8% in 2016, with rental growth rather than yield movement increasingly driving performance.

Island Road, Reading.
A development by Evander and Rockspring.



UK land values and rents



Key indicators

	2015	2016
Economic growth	2.6%	2.4%
Consumer spending growth	3.0%	2.3%
Industrial capital value growth	10.2%	3.8%
Industrial rental value growth	4.3%	4.0%

H1 Big shed take-up 11.6 million sq ft (14% above average)

H1 investment volumes £1.7 billion (£1.9 billion H1 2014)

Strong pound weakens exports

0.72
£/€

CIPS manufacturing survey

51.5 (August)
(above 50 indicates expansion)

Real incomes strengthened by low oil prices

$50
per barrel

Annual change in land values and net effective prime rents

Industrial construction

Construction orders (annual growth to Q2)

Warehouses	Factories
15%	10%

Industrial construction output growth forecast 2014 to 2018

26%

Industrial tender price annual growth to Q2 2015

8.3%

Market view

- Non-food retailers, particularly discounters and etailers lead demand
- Amazon takes over 1 million sq ft in 5 separate deals
- Design and build accounts for half of take-up
- Major requirements: 750,000 sq ft for B&M in the Midlands and The Range in the South West
- Grade A supply remains tight but turns corner as speculative completions increase
- Demand for development sites remains extremely strong

London
Birmingham
Bristol
Cardiff
Dublin
Edinburgh
Glasgow
Leeds
Liverpool
Manchester
Newcastle

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