Big Shed Briefing

July 2015

Silver Bullet at Hams Hall where Savills are marketing a speculatively built unit of 144,996 sq ft

SUMMARY

■ 12.7m sq ft of logistics space has been transacted in the first half of 2015 across 48 separate transactions, which is higher than the long-term average of 9.7m sq ft.

■ With the supply of units over 200,000 sq ft standing at just 30 nationwide the importance of Build-to-Suit (BTS) units has risen. Indeed deals for six BTS units over 500,000 sq ft completed in the first half of 2015, compared to just three in the same period of 2014.

■ By size the average size deal has increased to 265,000 sqft, however, by deal count 44% of the market in the first half of the year has been for units between 100,000 - 200,000 sq ft.

■ At a nationwide level supply has risen for the first time since 2010 with 1.7m sq ft added to the market, this is however still 77% below amount of supply on the market in 2009.

■ Announcements for speculatively built units continue and by the end of 2015 at least 19 units will complete, totalling 3.6m sq ft. Many of these units may never reach our supply figures as we expect many to let before practical completion.

■ Investment volumes in the first half of 2015 in the logistics sector have reached £1.53bn, 85% higher than the long-term average in the sector.

"Take-up levels remain higher than long-term averages but supply side constraints are starting to have an impact on occupational and investment markets" Kevin Mofid, Head of Industrial & Logistics Research

Take-up

■ Take-up for the first half of the year has reached 12.7m sq ft across the country over 48 separate transactions. Whilst this is 25% lower than the same period in 2014, it is higher than the H1 long-term average of 9.7m sq ft of deals.

■ The importance of BTS for large units has become strikingly apparent in the first half of 2015, with deals for six BTS units over 500,000 sq ft, compared to just three in the same period in 2014.

■ The largest deal of quarter was TK Maxx agreeing to take 650,000 sq ft in Wakefield, after the deal became unconditional after receiving planning permission.

■ The dynamics of this market have pushed the average sized deal in the first half of 2015 to 265,000 sq ft, however 44% of all deals were between 100,000-200,000 sq ft.

■ At a regional level in Q2, the East Midlands accounted for 28% of the market with 1.1m sq ft of deals, including Clipper Logistics taking the 341,025 sq ft unit at Grange Park, Northampton, setting a new rent benchmark of £5.90. This unit was constructed speculatively by Prologis and will be used for online fulfilment for Zara.

■ Across the country for the first half of the year the BTS market has accounted for 51% of all transactions. However, this varies dramatically by region with all deals in the South West in Q2 being for second hand units, compared to 76% of the market being BTS in Yorkshire.

■ The improvement in the UK manufacturing sector continues to have a ripple effect into the logistics market, with a third of all deals in Q2 related to manufacturing. Deals include Nice-pak, the world's largest wet wipe manufacturer taking almost 400,000 sq ft in Wigan for a new production and distribution facility.

Availability

■ For the first time since 2010 we have seen an increase in supply at a nationwide level, with supply rising by 1.7m sq ft over the quarter to reach 22.2m sq ft (England only). This is however still 77% below amount of supply on the market in 2009.

■ Tying in with the fact that the North West has seen a noticeable up-tick in take-up levels, the region also has the highest amount of stock on the market of any region in the UK at the moment. However, of this 4.3m sq ft Savills classify 51% of this floor space as Grade C stock, totalling 2.3m sq ft. By way of comparison, the East Midlands has the second highest amount of grade C stock, at just 500,000 sq ft.

■ In the most part the slight increase in supply has been driven by a number of second hand grade B units coming to the market. It is however important to note that we are now seeing units that have been speculatively constructed reach completion and, therefore, come into our statistics. An example being the Silver Bullet unit at Hams Hall in Birmingham totaling 144,996 sq ft, which reached practical completion in the past quarter.

■ Given the proportion of units taken over 500,000 sq ft so far this year, it is worth nothing that there are currently no existing units on the market over 500,000 sq ft. This will be addressed in the third quarter of this year when works complete to combine two units to create Sherburn 550 to the east of Leeds.

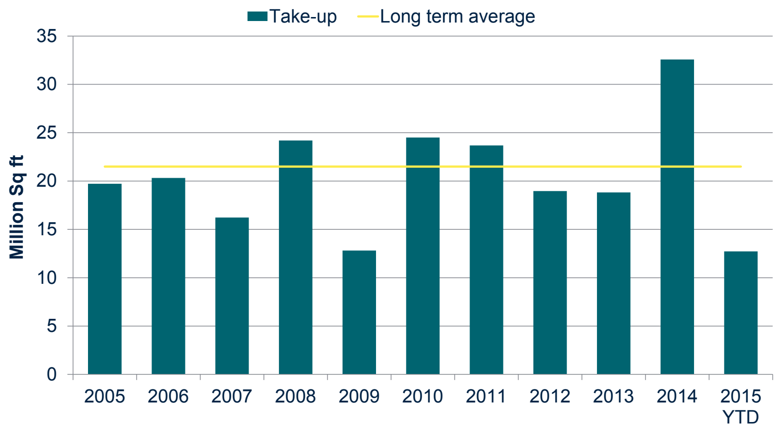
■ Whilst the "chunky" nature of analysing data by sq ft may paint a reasonable of supply at a nationwide level the situation is rather more chronic at a more granular level. Across the country there are only 30 units on the market over 200,000 sq ft, and in the West Midlands there are just two.

■ Given the market dynamics described the importance of speculative development to the mid-sized markets in core locations must not be under-estimated. By the end of 2015 we expect 19 units to complete, totalling 3.6m sq ft.

■ Into 2016 a further 1.8m sq ft across nine schemes has been announced. However, with demand out pacing supply in most markets it remains imperative that the construction of more stock is announced.

GRAPH 1

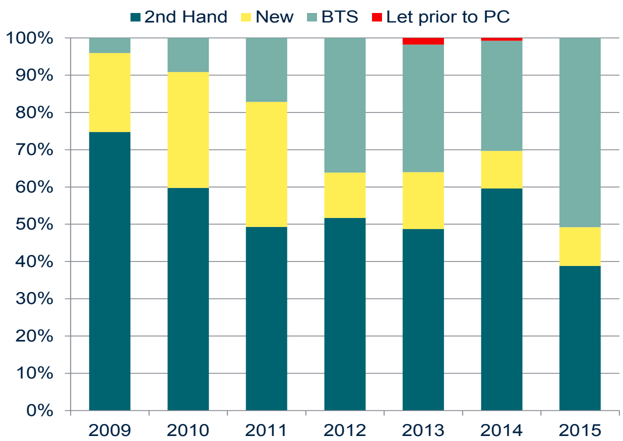
H1 take-up falls



Source: Savills Research

GRAPH 2

Build-to-Suit increases in importance



Source: Savills Research

Investment

■ Investment volumes in the first half of 2015 in the logistics sector have reached £1.7bn, approximately £1.37bn of which are "big sheds" of 100,000 sq ft+, captured within 30 transactions.

■ This is approximately 18% lower than for H1 2014 but still well ahead of the long-term average.

■ Investor demand for big sheds remains strong with the relative drop in volumes due to supply side constraints.

■ Tritax have accounted for approximately one quarter of all big shed investment acquisitions this year as they continue to grow their Big Box REIT. A further 25% is accounted for by Logicor's £360m portfolio acquisition from Oaktree / Anglesea.

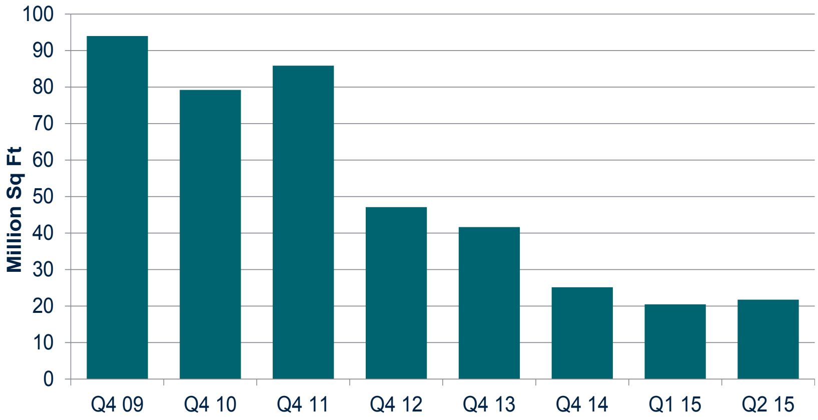
■ Average deal size for H1 2015 is £45.6m, a £16m increase on the same period last year however this figure drops to £30m allowing for individual properties within portfolio deals.

■ The average price weighted initial yield compressed by 160bps to 5.50% compared to the same period last year.

■ Off current low yield levels, it is no surprise that returns are slightly down on last year, however, in core markets rental growth will help deliver another strong year for the sector with total returns anticipated around 15%.

GRAPH 3

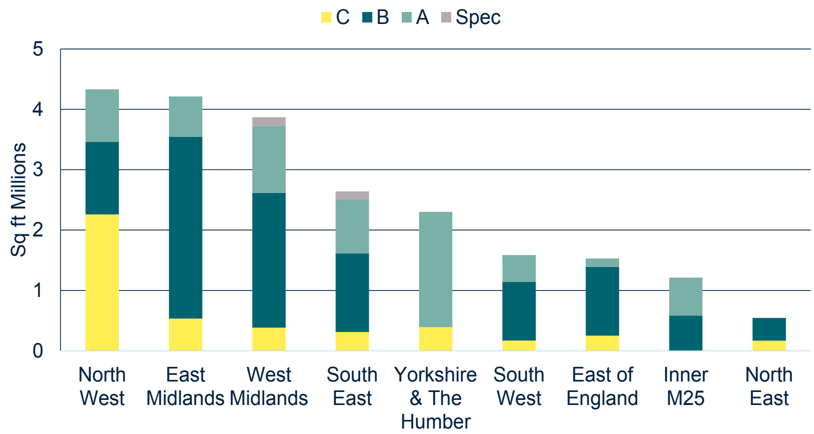
Supply rises for first time since 2011



Source: Savills Research

GRAPH 4

Supply varies in quality by region



Source: Savills Research

GRAPH 5

Big shed investment data*

	H1 2014	H1 2015
Investment volume	£1.67bn	£1.37bn
Deal count	56	30
Average deal size	£29.7m	£45.6m
Average income weighted yield	7.1%	5.5%
IPD Total Return	8.3%	5.8%

Source: Savills Research, Property Data, IPD

*units over 100,000 sq ft

OUTLOOK

Build-to-Suit is keeping take-up levels robust but more speculative units are needed to keep mid-size churn levels high.....

■ With a number of large unfilled requirements and large units either under offer or in planning we expect take-up levels to remain above long-term averages.

■ However, deal volumes in mid-size units are in down and it is this lack of churn that is stopping take-up levels matching the record levels reached in 2014. Whilst the development pipeline is starting to pick up take-up and requirement levels suggest there is still capacity for more units to be developed speculatively.

■ The differing reactions of retailers to the demands of omni channel retailing are having an impact at both the large and small end of the market. This will continue to have an impact in the short- to medium-term.

■ Strong demand and investor performance is expected to continue for the foreseeable future. The desire to capture growth will see short leased opportunities becoming increasingly sought after with development activity continuing to feed investors appetite for prime.

Key Occupier Data

Current Grade A / new supply (over 100,000 sq ft):
7.14m sq ft, down 15% qtr/qtr

Average quarterly take-up:
4.9m sq ft

2015 H2 speculative development deliveries:
3.6m sq ft

Key large current requirements:

North:
Poundland - 400,000 sq ft
TK Maxx - 600,000 sq ft

Midlands:
Beko - 700,000 sq ft
Decathlon - 500,000 sq ft

South:
The Range - 750,000 sq ft
Lidl - 300,000 - 400,000 sq ft

Nationwide:
Travis Perkins - 1m + sq ft
Agent Led - 600,000 sq ft
HSS - 620,000 sq ft

Key Investment Data

Big Shed Prime Yields
Long-term income: 4.75%
Medium term income: 5.25%
Short-term income: 5.75%

Recent Key Deals

Next, South Elmsall - Advised by Savills, LondonMetric have purchased a 330,300 sq ft unit let to Next. The unit has an unexpired lease term of nine years and was bought for £29m reflecting a net initial yield of 6.3%.

Poundworld, Wakefield - LondonMetric have forward funded a new unit of 524,000 sq ft. The investor has paid £39.4m for a 15-year term reflecting a net initial yield of 6.3%.

Geopost Dagenham – Advised by Savills. A private investor is acquiring the Geopost unit at Dagenham for a price in excess of £17m, reflecting a yield of sub 4.25%. The building comprises a new parcel depot of 66,000 sq ft prelet to Geopost for 25 years.

Please contact us for further information


Richard Sullivan
National Head of Industrial
+44 (0)20 7409 8125
rsullivan@savills.com


Toby Green
Director - South East
+44 (0)20 7409 9903
tgreen@savills.com


Ranjit Gill
Director - Birmingham
+44 (0)21 634 8402
rsgill@savills.com


Jon Atherton
Director - Manchester
+44 (0)161 277 7207
jatherton@savills.com


Dave Robinson
Director - Leeds
+44 (0)113 220 1218
darobinson@savills.com


Rob Cleeves
Director - Bristol
+44 (0)1179 102 227
rcleeves@savills.com


William Rose
Director - Peterborough
+44 (0)1733 201 391
wrose@savills.com


James Williams
Director - UK Investment
+44 (0)20 7409 8785
jebwilliams@savills.com


Simon Collett
Building Consultancy
+44 (0)20 7409 5951
scollett@savills.com


Kevin Mofid
Research
+44 (0)20 3618 3612
kmofid@savills.com