



CUSHMAN &
WAKEFIELD

UK LOGISTICS & INDUSTRIAL REGIONAL OUTLOOK

SUMMER 2019



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SUMMER 2019



Summary

- Q2 take-up rose by 9% y-o-y to 8.2 million sq ft, taking the half-year total to 15.3 million sq ft, just below the long-term average of 15.7 million sq ft.
- While the number of the deals (62) was the highest since Q1 2015, the average deal size was down due to fewer large transactions.
- Possibly in connection with Brexit preparations, 3PLs had the largest share of take-up volume in Q2 (50%) and H1 (31%).
- Availability continued to rise, by 8% to 63.8 million sq ft, largely due to the record volume of speculative completions this year (13.7 million sq ft).
- As a result, Grade A space accounts for 46% of total availability, compared to 39% a year ago.
- The East Midlands has the highest amount of speculative space currently under construction (2.9 million sq ft) and the South East/East has the highest number of units (18).
- C&W prime rental index grew at an annual rate of 3.2% in June, matching MSCI's index over the same period.
- Based on preliminary figures, logistics investment in H1 fell by 37% relative to 2018 to £2.3bn, while C&W prime yields moved in slightly to 5.1%.
- In June, total logistics returns fell below 10% but continued to outpace the rest of commercial property (5.9% for offices, -3.9% for retail).

Outlook

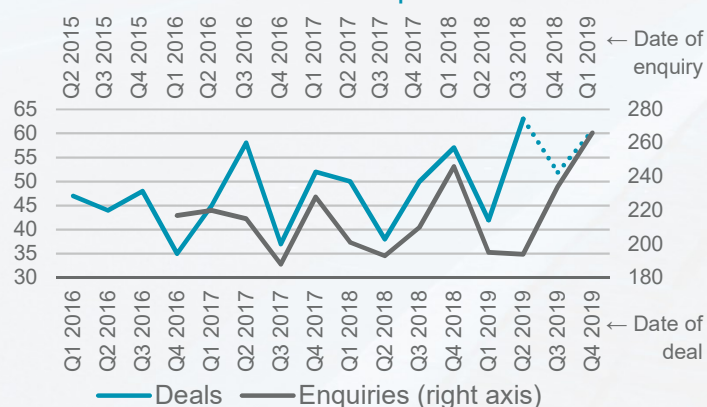
- The continued political and economic uncertainty may contribute to explain the lowest quarterly level of new enquiries (167) registered since Q1 2016.
- However, the pipeline of previous enquiries is such that we expect take-up to bounce-back, assuming Brexit is resolved later this year.
- Labour availability will influence where occupiers want to locate, with Environmental, Social and Governance (ESG) considerations also ranking increasingly high in occupiers' agenda.
- A tight labour market, plus a recent surge in supply means that, from an investor perspective, a more granular approach is warranted in stock selection to identify rental growth and generate performance going forward.
- Despite greater caution, there is no shortage of capital looking at logistics. Nonetheless, in the short term, some pricing adjustment may be necessary for certain type of stock to trade.

Key Stats

	Value	Q-o-Q change	Y-o-Y change
Take-up	8.2m sq ft	+15%	+9%
Availability	63.8m sq ft	+6.8%	+6.8%
Speculative space u/c	9.3m sq ft	-1%	+22%
Average Grade A Big Box rent	£7.75 /sq ft/year	0.4%	3.2%
Prime average yield	5.1%	-2bps	-8bps

Source: Cushman & Wakefield

Deals & Enquiries



Source: Cushman & Wakefield

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Economy

ECONOMY LOSES MOMENTUM

Latest indicators show that the economy remains stuck in the slow lane. In the three months to May, GDP grew by 0.3% compared to 0.5% in Q1. In a similar fashion, PMI surveys point to output stagnation in the services sector. Meanwhile, the boost of stockpiling to manufacturing has faded: in June, the manufacturing PMI fell its lowest level since February 2013. Amid all the negative announcements surrounding the automotive sector, it was positive to note the continued growth of Light Commercial Vehicles (LCVs) registrations, which is arguably linked to electrification and the e-commerce boom. Generally, consumer spending remains a bright spot, with retail sales up by 3.4% y-o-y in the three months to June.

Occupier market

TAKE-UP IN LINE WITH LONG-TERM AVERAGE

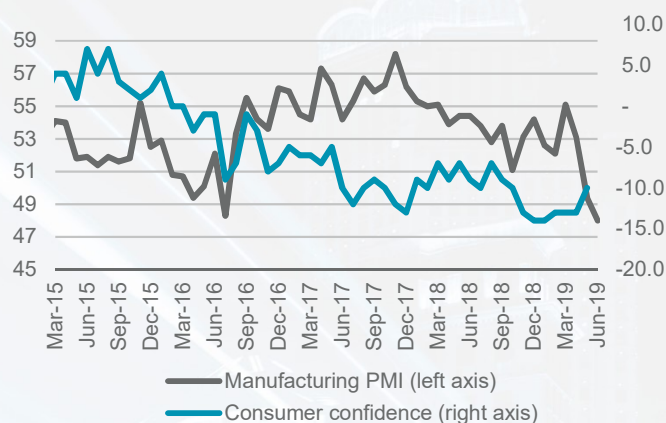
After a subdued start to the year, occupier demand picked up in Q2. Beating expectations, take-up in Q2 rose by 9% y-o-y to 8.2 million sq ft, taking the mid-year total to 15.3 million sq ft, just below the 10-year average of 15.7 million sq ft. Encouragingly, the number of deals in Q2 (62) was the highest in a quarter since Q1 2015. However, the average deal size was down to 134,000 sq ft compared to 211,600 sq ft for 2018 as a whole due to fewer large requirements.

Possibly in connection with Brexit preparations, 3PLs had the largest share of take-up volume in Q2 (50%) and H1 (31%). In contrast, the share of manufacturing (15%) remains below its annual long-term average (26%). E-commerce continued to expand, accounting for 15% of take-up in H1.

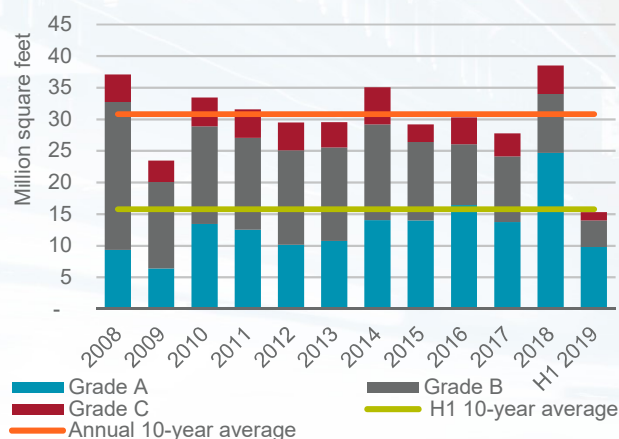
Geographically, performance varied quite significantly, with the East Midlands and London/South East/East continuing to see a good rate of transactions, while the North West, Wales and South West had a slower start to the year.

Availability continued to rise, by 8% to 63.8 million sq ft, largely due to the record volume of speculative completions this year (13.7 million sq ft).

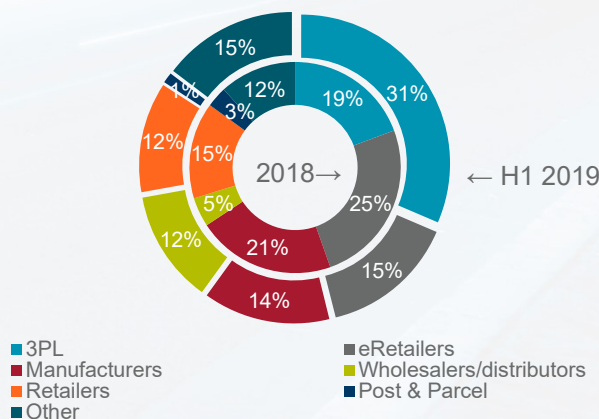
Manufacturing & consumer confidence



Take-up



Take-up by sector



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At the end of Q2, there was 9.3 million sq ft of speculative space under construction.

Generally, there has been an increase in development at the larger (>400,000 sq ft) and smaller (50-100,000 sq ft) ends of the market. Meanwhile, rents continued to grow at 3.2% y-o-y in June, according to MSCI. C&W prime rental index rose by the same amount.

Investment market

INVESTORS TAKE STOCK

The logistics investment market appears to have softened since the beginning of the year amid continued Brexit uncertainty and end-of-cycle concerns. Based on preliminary figures, £2.3bn was invested in logistics in H1, which would represent a 37% decline relative to 2018.

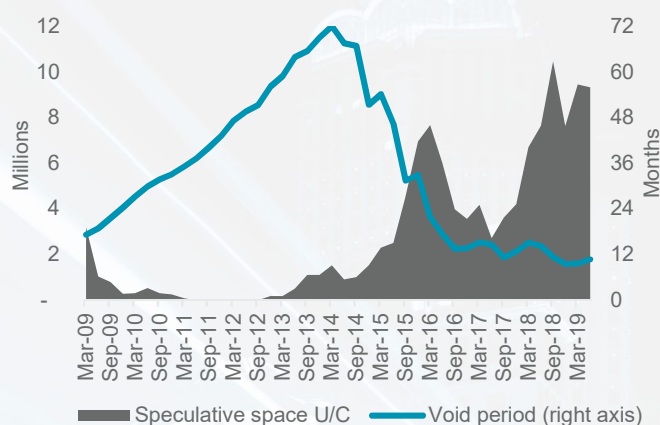
That said, good-quality, well-let assets remain in demand and continue to command sharp yields. The largest single-asset deal of the quarter was the acquisition by CBRE GI of Sports Direct HQ (1.8 million sq ft) in the East Midlands on a sale-and-leaseback basis (15-year lease) for £126.4 million.

Forward funding is a popular solution for institutions to access prime assets. Earlier this year, LaSalle IM forward-funded Next DC (332,335 sq ft) in Waltham Abbey on the M25, for £80.2m, reflecting an initial yield of 3.2% for a 25-year lease.

In contrast, there is a growing mismatch between buyers' and sellers' expectations for secondary assets, either in terms of lease length, covenants, building quality and location. In turn, there was a small outward shift in MSCI's equivalent yield in June relative to year-end 2018 to 5.5%.

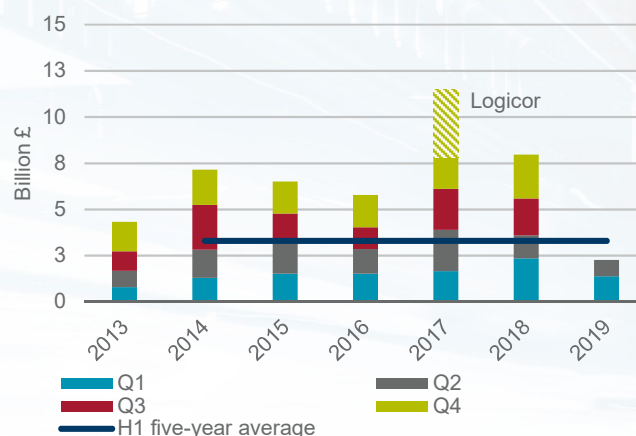
Total returns have moderated as a result. The "distribution warehouse" sector posted an annualised return of 9.9% in June. Nonetheless, the sector continues to outperform the rest of commercial property: total returns for offices fell to 5.9%, while retail slipped further in negative territory (-3.9%).

Speculative development & void period



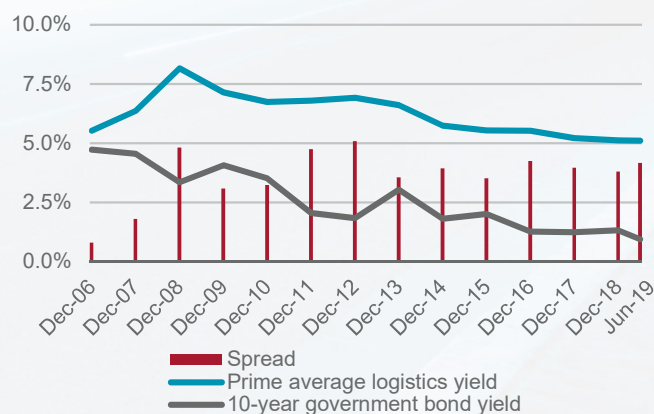
Source: Cushman & Wakefield

Total logistics & industrial investment



Source: Cushman & Wakefield, RCA

Yields



Source: Cushman & Wakefield, Oxford Economics

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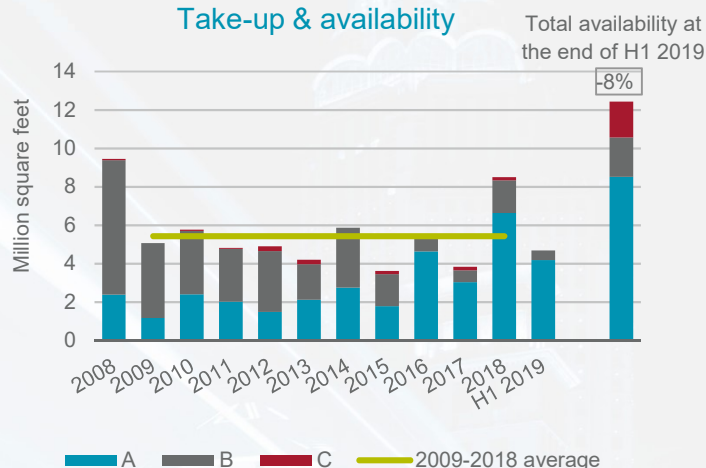


London/South East/East

SUPPLY FALLS IN LONDON

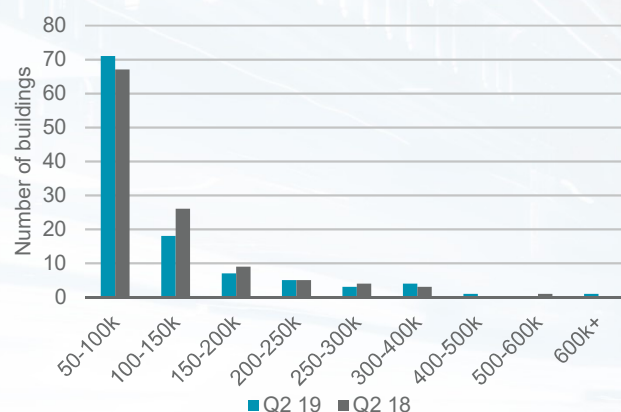
- Take-up across London and the South East/East reached 4.5 million sq ft in the first half of the year, 55% above the 10-year average.
- London recorded the best first-half since 2014, with 1.6 million sq ft transacted across 14 deals, while take-up in the South East/East was the third strongest since 2008 at 2.8 million sq ft.
- Demand continues to be driven by e-commerce, which accounted for 28% of take-up volume and 20% of deals in H1. After letting Altitude in Milton Keynes in Q1, Amazon took additional space in London and Southampton in Q2.
- Nonetheless, the largest transaction of the quarter was the letting of Logic 233 in Dagenham, East London, to Eddie Stobart. The deal exemplifies the steady demand emanating from 3PLs, the second most active occupier group (20% of take-up volume and 28% of deals).
- The share of speculative development in take-up has increased, particularly in the South East/East, accounting for 38% of deals in H1 compared to 31% in 2018.
- The focus on existing space means availability fell by 8% during the last 12 months to 12.5 million sq ft.
- This decline masks a sharp drop in London (-38% to 2.2 million sq ft) and a marginal increase (3%) through the rest of the region where speculative completions are due to peak this year at 3 million sq ft.
- The land market remains strong, particularly within the M25, with developers continuing to bid aggressively for prime sites.
- Prime rents in the Big Box market rose at annual pace of just over 2.5% in London and the South East, and by circa 1% in the Eastern quadrant.

Take-up & availability



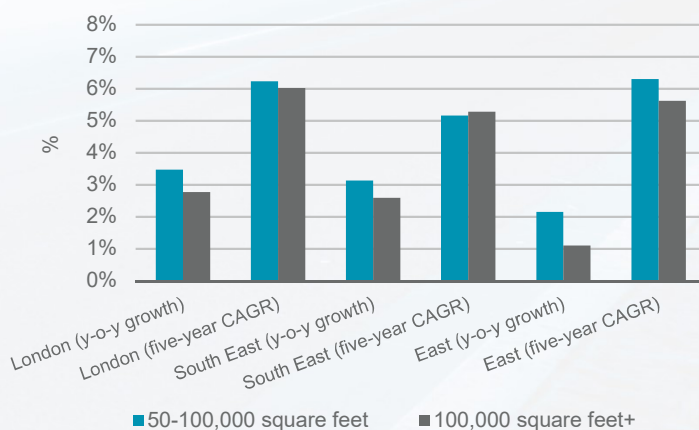
Source: Cushman & Wakefield

Availability by size bracket



Source: Cushman & Wakefield

Prime rental growth



Source: Cushman & Wakefield

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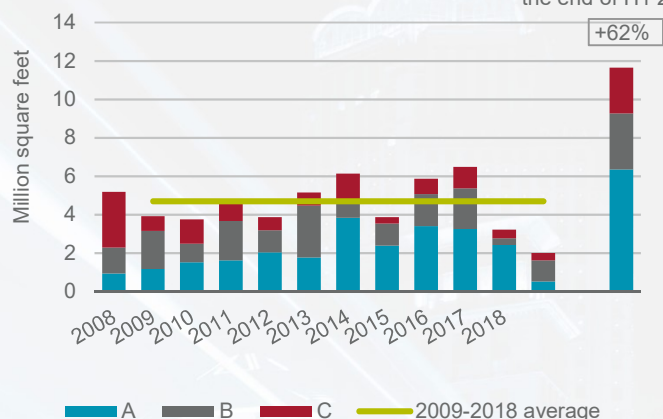
West Midlands

DEVELOPERS TARGET MID-BOX

- Following a quiet 2018, take-up bounced back in the first half of 2019 to reach 2 million sq ft (+22 y-o-y), while remaining 11% below the 10-year average for the period.
- Encouragingly, the number of deals (22) was comparable to the good levels seen in 2016/2017.
- The two larger deals of the quarter took place in Coventry, where Neovia logistics signed a 5-year lease at the recently refurbished Coventry 170 (172,342 sq ft), while Menzies Distribution paid £6.50/sq ft/annum for unit 2 at Imperial Park (169,306), a speculative development that had been vacant for around two years.
- 3PLs have been the most active occupier group so far this year, accounting for over 40% of deal volume, while enquiries from manufacturing are down.
- Availability has increased sharply over the last 12 months (+62%) to 11.6 million sq ft, with Grade A availability nearly doubling over the same period to 6.3 million sq ft, or over 50% of the total.
- This increase reflects the volume of speculative development underway and recently completed. Speculative completions for 2019 are forecast to reach a post-GFC high of 2.5 million sq ft across 22 units, of which 1.5 million sq ft is scheduled to complete it H2.
- While there are a number of larger speculative units on the market, including three along the A5 north of Birmingham, developers are increasingly targeting the Mid-Box market, including Velocity in Redditch and Pantheon Park in Wolverhampton.
- As a result, availability in the 50-100,000 sq ft size band nearly tripled in the space of a year to 44 units.
- Prime rents for Big Box in the West Midlands rose by 4.9% on average in the 12 months to the end of Q2.
- Prime yields fell by 10bps over the year to a regional average of 5.25% in Q2.

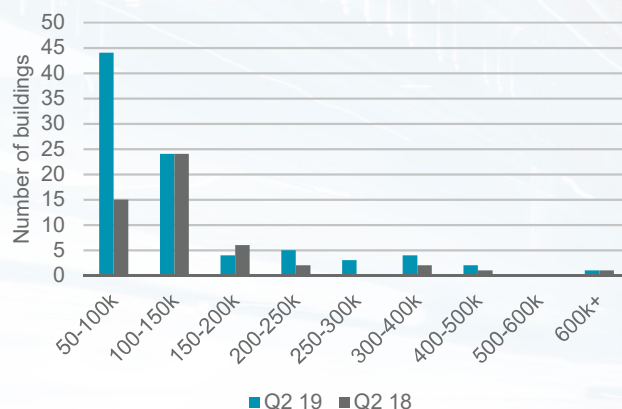
Take-up & availability

Total availability at the end of H1 2019



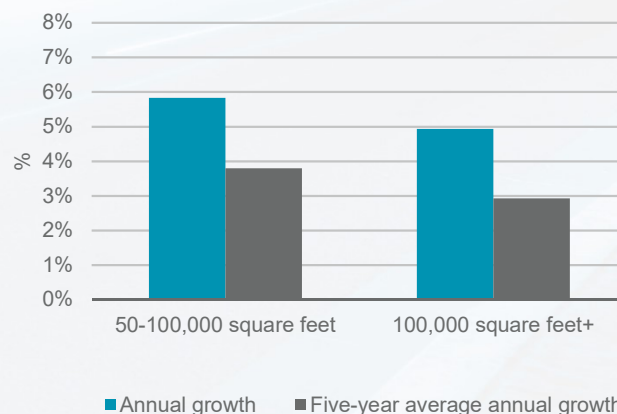
Source: Cushman & Wakefield

Availability by size bracket



Source: Cushman & Wakefield

Prime rental growth



Source: Cushman & Wakefield

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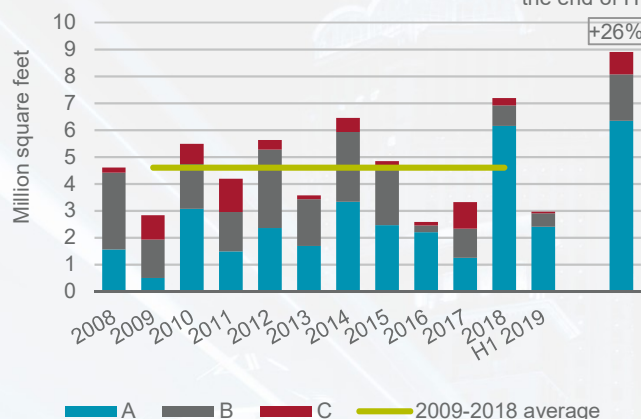
East Midlands

FOCUS ON XL UNITS

- Following a relatively quiet Q1, activity picked up in Q2, with 2.5 million sq ft transacted across 13 units.
- This took the mid-year total to nearly 3 million sq ft, which represents a decline of 17% compared to the record year of 2018, but a 32% uptick on the 10-year average.
- The region continues to benefit from the availability of large consented development sites, with a combination of build-to-suits (34%) and speculative build (40%) driving take-up so far this year.
- In what were the key deals of the quarter, VF Corporation signed for a 579,000 sq ft purpose-built unit at Mountpark Bardon, while Eddie Stobart let prior to practical completion the three units being speculatively developed by Panattoni in Northampton.
- A surge in speculative development offset the impact of demand on availability that rose by 26% to 8.9 million sq ft in the 12 months to the end of Q2.
- However, of the record 4.2 million sq ft of speculative development this year, over 2.1 million sq ft are comprised by just four 500,000+ sq ft units.
- There is also a greater choice of smaller units (27 options available in the 50-100,000 sq ft size band compared to just eight a year ago) with several schemes geared towards this segment including Leicester Distribution Park in Leicester and Cransley Park in Kettering.
- Prime rents for Big Box grew by 4.5% on average during the year.
- Prime yields were unchanged over the year at 5.25%.

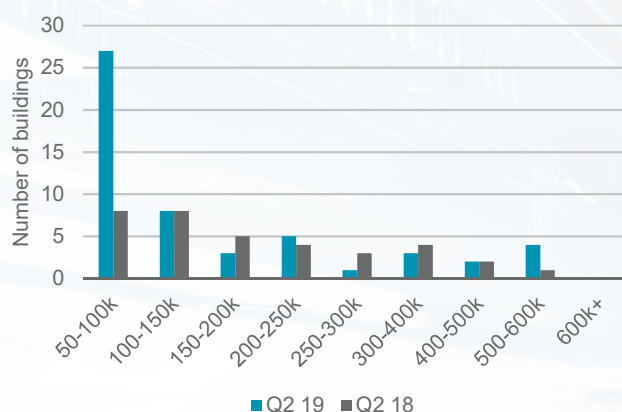
Take-up & availability

Total availability at the end of H1 2019



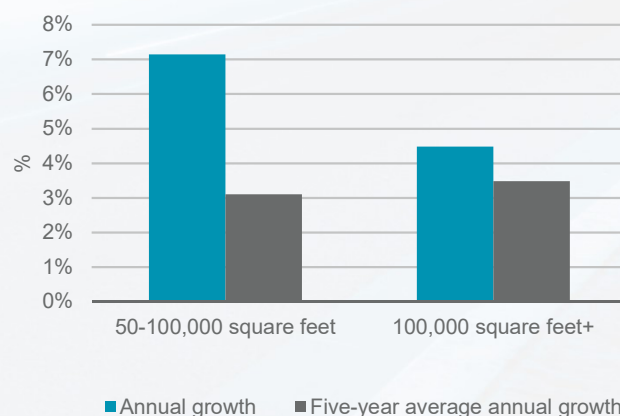
Source: Cushman & Wakefield

Availability by size bracket



Source: Cushman & Wakefield

Prime rental growth



Source: Cushman & Wakefield

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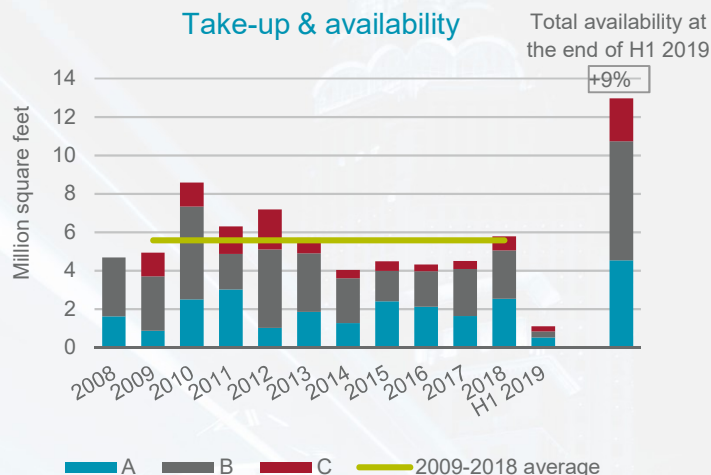


North West

SLOW START TO THE YEAR

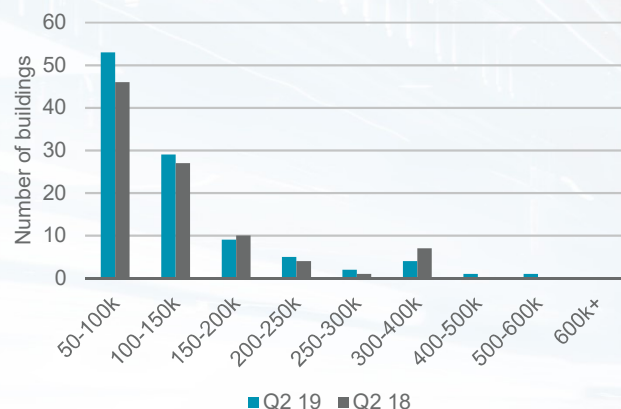
- Take-up in H1 2019 totalled 1.1 million sq ft across just nine deals, the lowest level since our records began in 2008.
- 3PLs are the most active occupiers, representing nearly 2/3 of take-up in H1.
- The most notable deals of the quarter were turnkey: Jenkins Shipping signed for a 300,000 sq ft new purpose-built warehouse at the Port of Liverpool, while Alpha LSG paid £6.75/sq ft/year for unit 4 (100,000 sq ft) at Manchester airport's Icon, cementing the prime rent for Big Box in the Manchester submarket.
- Meanwhile, total availability continued its upward trend, rising by 9% over the year to 12.9 million sq ft.
- Sustained levels of speculative development have caused Grade A availability to rise by 18% to 4.7 million sq ft at the end of Q2, to account for circa 35% of the total.
- In particular, a number of 200k+ sq ft units have recently completed including Venus 217 in Knowsley (217,765 sq ft), Crewe 240 in Crewe (237,764) and M6 Major in Haydock (525,300 sq ft), the largest speculatively-built unit in the North of England.
- Whilst the occupational market has been a little subdued in H1, there have been a number of prime development sites brought to the market this year with exceptionally strong interest from developers.
- Prime rent for Big Box rose by 4.2% y-o-y on average across the region.
- The prime average yield for the North West stabilised at 5.25% during the last 12 months.

Take-up & availability



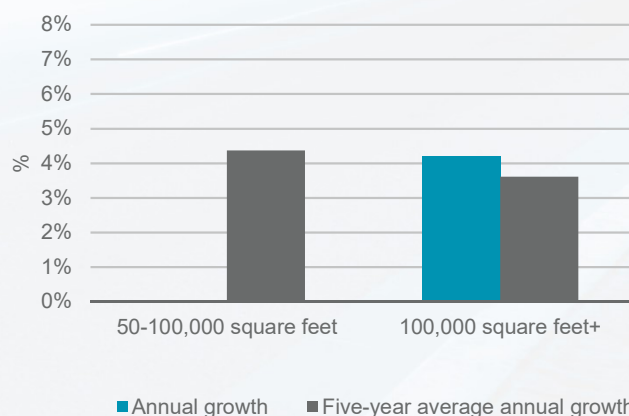
Source: Cushman & Wakefield

Availability by size bracket



Source: Cushman & Wakefield

Prime rental growth



Source: Cushman & Wakefield

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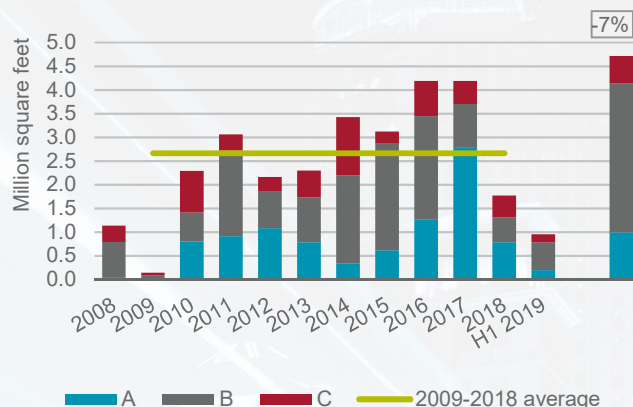
South West

LACK OF LARGE DEALS HAMPERS TAKE-UP

- The letting of Groundswell Distribution Centre in Swindon (149,000 sq ft) to Oak Furniture Land was the main transaction for the quarter but did not alter what was a subdued first half of the year for take-up.
- Transactions reached 950,000 sq ft, a 19% uptick on last year, but remain 42% below the 10-year average.
- This lacklustre performance is attributable both to the reduced deal flow and deal size, with economic and political uncertainty continuing to impact larger requirements.
- Honda's decision to close its Swindon's plant in 2021 as part of a global restructuring process was unwelcomed news, although it should not impact the market in the short-term.
- While total availability is slightly down (-7%) over the year to 4.7 million square feet, the recent pick-up in speculative development has contributed to boost supply of Grade A space, which rose by 41% over the year to 990,000 sq ft across 11 units.
- Of these, eight buildings ranging between 52,500 and 151,300 sq ft, are in the Avonmouth/Bristol area, with the largest one understood to be under offer.
- When uncertainty subsides, the greater number of options available to occupiers should help drive take-up.
- Meanwhile, prime rents for larger sheds across the South West have continued to grow on annual basis, by 3.0% on average.
- New product will continue to test rental levels, with smaller units in the 50-100,000 sq ft size bracket quoting rents up to £7.75/sq ft/annum.
- Prime yields stand at 5.3%, 10bps lower than 12 months ago.

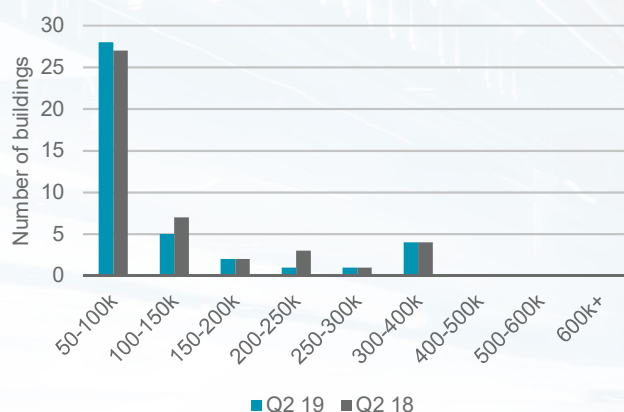
Take-up & availability

Total availability at the end of H1 2019



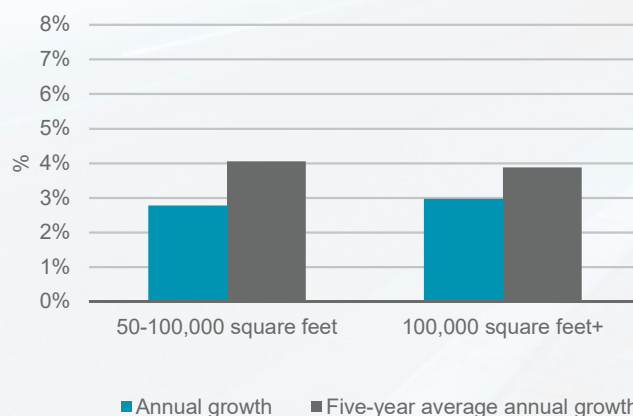
Source: Cushman & Wakefield

Availability by size bracket



Source: Cushman & Wakefield

Prime rental growth



Source: Cushman & Wakefield

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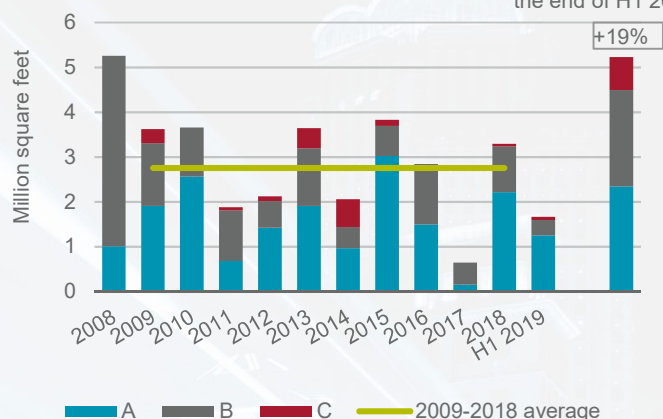
Yorkshire & Humberside

DEVELOPMENT BOLSTERS SUPPLY

- At 1.6 million sq ft, take-up in H1 exceeded the 10-year average of 1.1 million sq ft by 45% but it was 26% down on last year due to an exceptionally strong H1 in 2018.
- The deal of the quarter was the letting of Super G, a 259,000 sq ft spec-built unit in Castleford to Puma on a 15-year lease, just prior to completion. The largest transaction so far this year is the 731,000 sq ft pre-let to Amazon at Iport Doncaster.
- Looking at smaller lettings, Towngate secured occupiers for its 62,5000 and 55,000 sq ft newly-built units at Towngate Links, East Leeds, at a headline rent of £5.90/sq ft/annum.
- Also highlighting pent-up demand for Grade A space, two units developed speculatively by PLP at Bessemer Park (134,000 and 45,000 sq ft) are understood to be under offer.
- The return of speculative development and release of some large second-hand units back to market have pushed availability up by 19% over the year to circa 5.2 million sq ft, across 47 buildings.
- The two largest available units on the market are the former Poundworld DC in Normanton (546,970 sq ft) and the SIRT building ((336,105 sq ft) in Sheffield. In a sign of confidence in the market, they were recently acquired by Exeter Property Group from London Metric.
- Grade A space now accounts for 44%, or 2.3 million sq ft, of total available space compared to 21% a year ago.
- Supply is more plentiful in South Yorkshire, where there are a number of new builds available, mostly in the 100-200,000 sq ft size range, including units at Iport, Nimbus Park and Symmetry Park Doncaster, plus a 278,852 sq ft unit at Gazeley's Doncaster Distribution Park.
- Furthermore, subject to planning, works are due soon to start on a 409,000 sq ft speculative building at Gateway 4 in Armthorpe, Doncaster, which would be South Yorkshire's largest.
- Prime rents for Big Box grew on average by 5.5% over the year, and by 4.3% in Leeds to £6.00/sq ft/annum.
- The prime average yield for Yorkshire remained stable during the year at 5.5%.

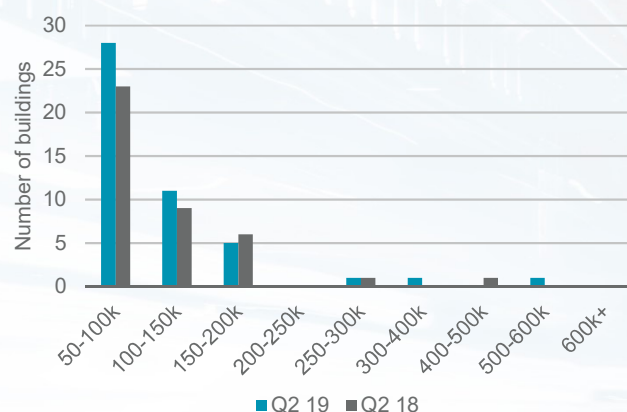
Take-up & availability

Total availability at the end of H1 2019



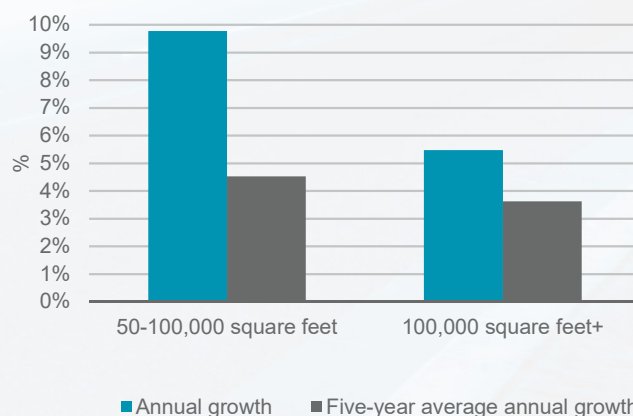
Source: Cushman & Wakefield

Availability by size bracket



Source: Cushman & Wakefield

Prime rental growth



Source: Cushman & Wakefield

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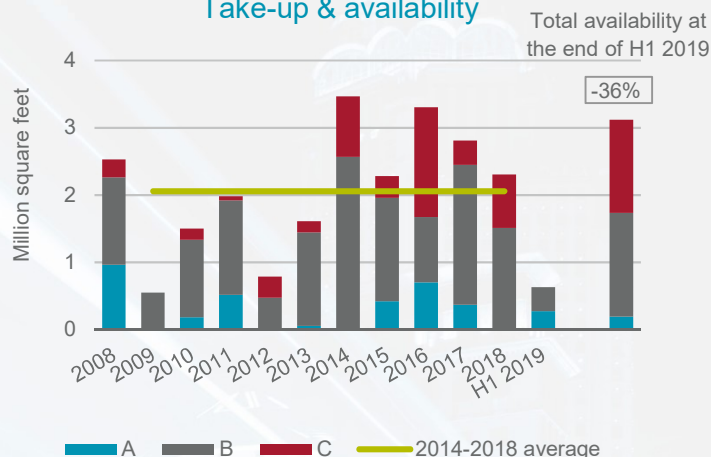


Wales

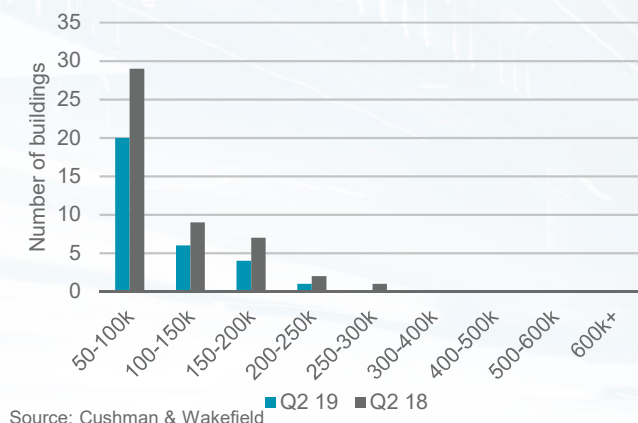
QUALITY OF STOCK REMAINS AN ISSUE

- Totalling just 626,000 square feet, take-up in South Wales more than halved in the first six months of the year relative H1 2018 and finished 44% below the 10-year average.
- Only five deals above 50,000 sq ft were registered in the first half of the year, of which there was only one in Q2, compared to 10 in H1 2018.
- Sentiment was dented by a number of announcements, including the closure of Ford's engine plant at Bridgend and Quinn Radiators' operations at Newport, and the shelving of the plans for the M4 relief road. Announced closures mean some 1 million sq ft could potentially return to market in the next 12-18 months.
- Availability remains severely constrained, with just over 3 million sq ft available at the end of Q2 across 31 units, 36% below the equivalent figure in 2018.
- The quality of existing stock remains a critical issue, with several active requirements remaining unsatisfied at present: nearly 50% of available space is Grade C, while supply of Grade A space is virtually non-existent.
- This severe undersupply has put speculative development back on the agenda, with St Modwen's looking to spec 30,000 and 100,000 sq ft in Newport by Q1/Q 2020 and ABP also considering speculative development at its Cardiff site.
- For the time being, occupiers wishing to upgrade will have to turn primarily to build-to-suits assets and refurbished space.
- Prime rents for Big Box grew on average by 5.4%. In Cardiff the prime rent currently stands at £5.50/sq ft/annum.
- Prime regional yields remained unchanged at 5.4% on average during the year.

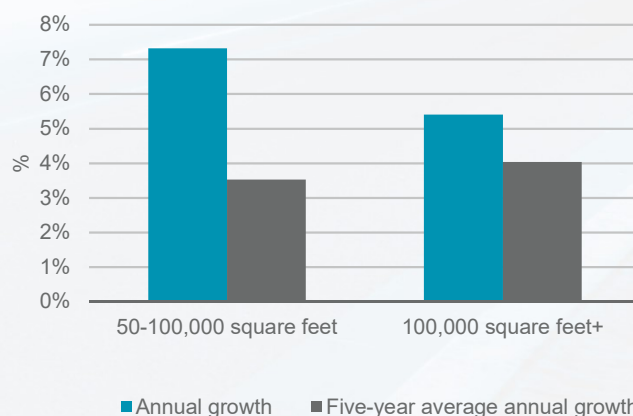
Take-up & availability



Availability by size bracket



Prime rental growth



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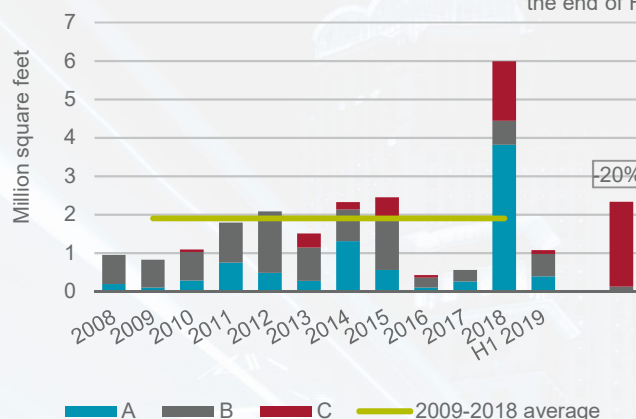
North East

SUPPLY CONSTRAINTS HINDER DEMAND

- With just over 1 million sq ft transacted, H1 take-up was in line with the 10-year average for the period, but more than halved compared to an exceptionally strong H1 2018 (2.4 million sq ft).
- Continued uncertainty around Brexit and Nissan's recent decision to end production of one of its models at its Sunderland plant both contributed to a cooling of activity in the first half of the year.
- In response to Nissan's announcement, automotive supplier Faltec halved its original requirement at Sunderland IAMP near Nissan's plant, taking a 131,000 sq ft pre-let with an option to expand.
- The chronic lack of good quality stock also continues to hold back demand. There were no existing Grade A buildings available at the end of Q2, with Grade C space accounting for 95% of availability.
- The dearth of development is such that there is still no solution in sight to the undersupply problem. Some local authorities, such as County Durham, are taking steps to address this issue by offering their covenants to encourage developers to build new space.
- New sites being brought forward could provide some relief going forward. These include Forrest Park, which has potential for up to 1.7 million sq ft of warehouse space.
- The lack of good quality product means prime rent cannot be properly tested but it is believed the right product could push prime rents to the £6.00/sq ft/annum mark, from £5.25-5.50/sq ft/annum currently.
- Prime yields in Newcastle are unchanged at 5.5%.

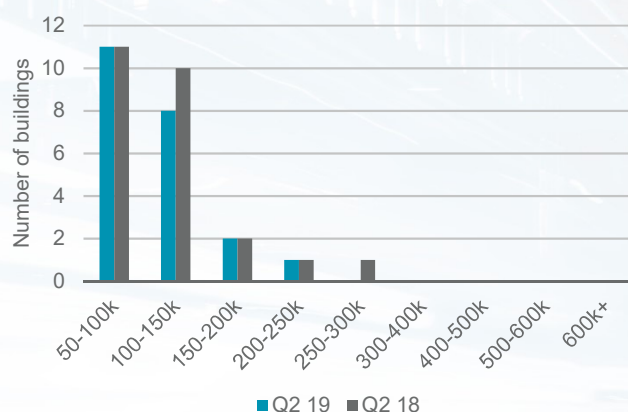
Take-up & availability

Total availability at the end of H1 2019



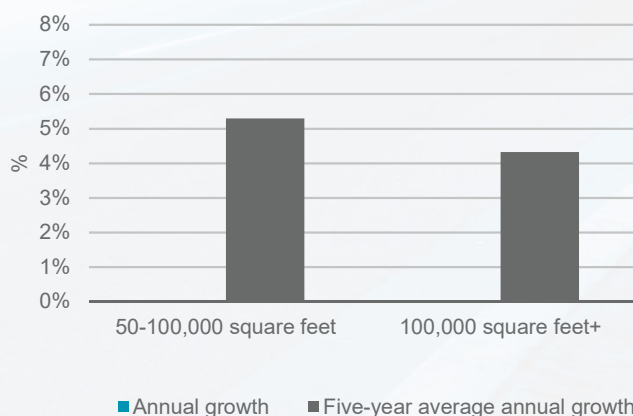
Source: Cushman & Wakefield

Availability by size bracket



Source: Cushman & Wakefield

Prime rental growth



Source: Cushman & Wakefield

UK LOGISTICS & INDUSTRIAL REGIONAL OUTLOOK

SUMMER 2019



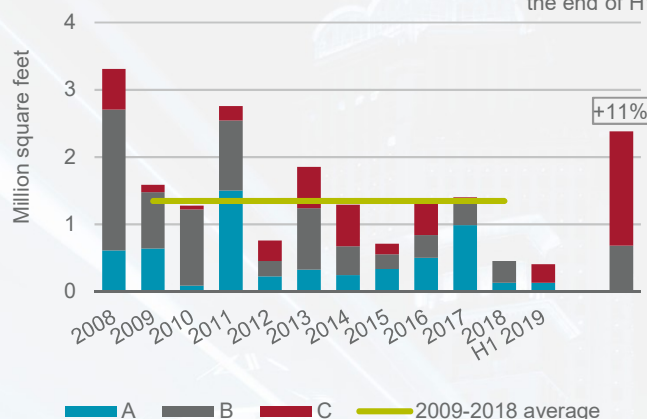
Scotland

BEST START SINCE 2016

- Take-up in H1 reached its highest level since 2016, with 406,000 sq ft transacted across 3 deals.
- One of the most notable transactions so far this year is the 120,400 sq ft pre-let taken by wholesaler JW Filshill at Westway Park, near Glasgow airport, to accommodate business expansion.
- Pre-lets are the main solution for occupiers looking to acquire modern distribution space, with Big box speculative development remaining elusive.
- In fact, of the 2.4 million square feet of space available at the end of Q2, the large majority (72%) was second-hand Grade C stock.
- The greater number of available units are in the 50-100,000 sq ft size band (18), with only five units above 100,000 sq ft available for immediate occupation.
- Prime rents for larger units remained stable over the year.
- Prime average logistics yields were stable during the year at 6.0%.

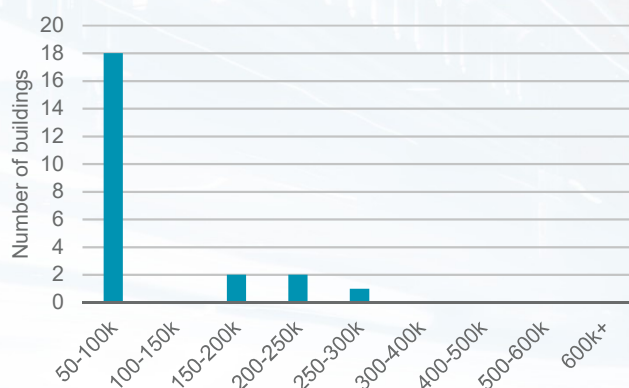
Take-up & availability

Total availability at the end of H1 2019



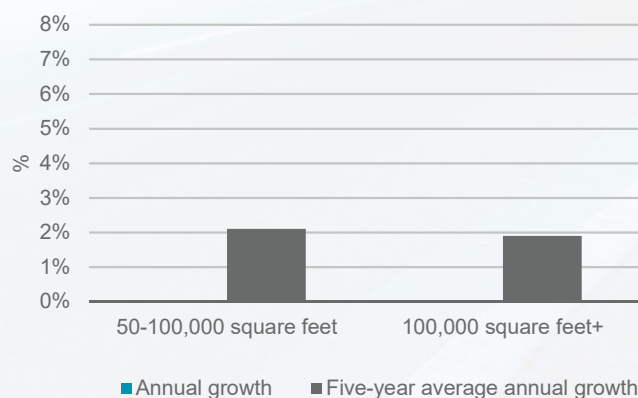
Source: Cushman & Wakefield

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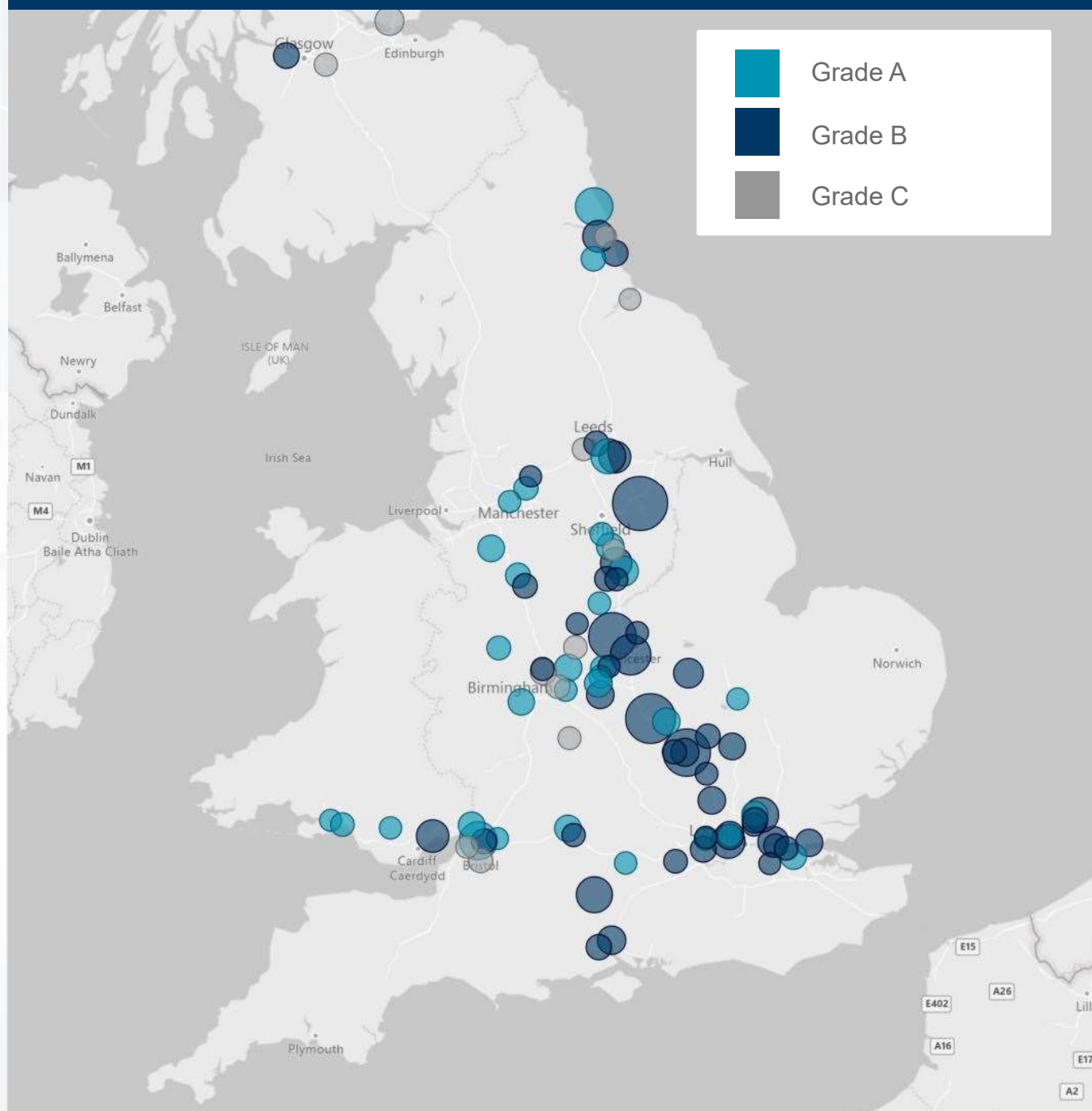
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CUSHMAN &
WAKEFIELD

Occupier transactions; H1 2019; by type of building



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