



2 million sq ft Integra 61, Durham

RESEARCH

Big box bulletin

2020 review of distribution activity

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Occupier market in brief

BIG BOX SEES RECORD DEMAND, FALLING SUPPLY AND STRONG RENTAL GROWTH

The growth in e-commerce during 2020 lifted demand for big box distribution to record levels, reducing supply of existing and speculative stock. This in turn has put pressure on rents and land values, as activity gathered exceptional momentum during the second half of the year.

Take-up of large grade A warehouses >100,000 sq ft, amounted to 38.4 million sq ft during 2020, 40% above the five-year average. Amazon continued to dominate the market with its four-level 2 million sq ft design and build model, accounting for 30% of all take-up. There were four of these key deals during the year: at Littlebrook, Dartford; Panattoni, Swindon; Follingsby Max, Gateshead; and Gateway 45, Leeds; lifting activity in the non-food retail sector to 41%.

Third-party logistics accounted for a further 36% of take-up, which was also driven by the accelerated change in e-commerce, coupled with demand to service the NHS and other healthcare requirements. Food retailers (10%) also saw a greater share of activity in 2020, whereas manufacturing (7%) was well down on recent years.

Design and build take-up accounted for 47% of activity and the eight largest deals of 2020. However, in the Midlands this was significantly lower than in previous years, as many organisations favoured the immediate availability of existing space. Take-up of speculative developments has more than doubled compared to recent years, accounting for 11 million sq ft. In addition, second-hand units have also experienced high demand, leading to a large proportion of vacant stock being absorbed in 2020.

Availability of units >100,000 sq ft declined to 25.8 million sq ft at the end of 2020, down from 31.3 million sq ft a year ago, and just under a year's supply based on demand over the past five years. It is likely the market will see a resurgence of speculative development to respond to ongoing demand.

Strong demand and diminished levels of standing stock has put upward pressure on rents, which is driving developer demand and exerting pressure on land values. As a consequence, land prices have increased in most regions over the past six months, and this is expected to continue due to higher rental expectations and yield compression.

Due to its central location and availability of a wide range of buildings and land, the East Midlands has been the dominant region for the past three years and accounted for 10.7 million sq ft of activity in 2020, 29% of the total. All other regions also performed above the five-year average, with take-up in London and the South East contributing 26%, followed by Yorkshire and the North East at 17%. Meanwhile, the West Midlands accounted for 12%, reflecting a more limited choice of assets and a greater concentration on manufacturing.

In spite of economic certainty we expect strong performance to continue in 2021, supported by the large number of substantial requirements and deals under offer and now there is greater clarity on Brexit; a factor which has seen some occupiers holding off final decision making on new space.

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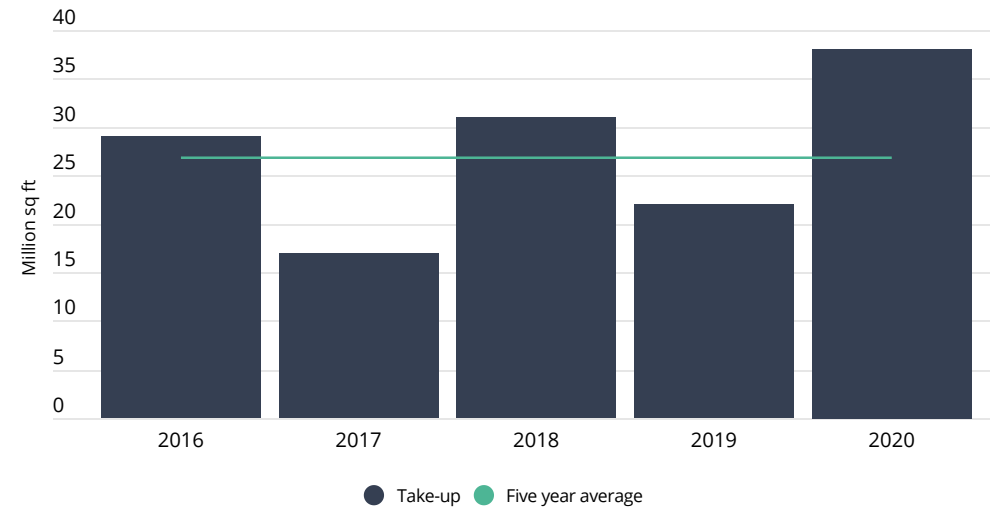
Many organisations favoured the immediate availability of existing space in 2020. Take-up of speculative developments and second-hand units have experienced high demand, leading to a large proportion of vacant stock being absorbed.

Occupier data

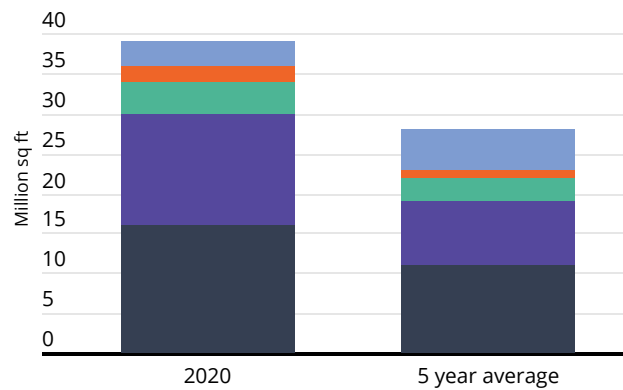
KEY DEALS - H2 2020

SCHEME & ADDRESS	SIZE (SQ FT)	TENANT
Panattoni Park, Swindon	2,300,000	Amazon
Peterborough Gateway	1,031,471	McCormick Foods
SP870, Suffolk Park, Bury St Edmunds	870,500	WEERTS Group
DIRFT III, Daventry	840,000	Royal Mail
Segro Logistics Park, East Midlands Gateway	694,084	DHL
Sherburn 667, Sherburn Distribution Park, Leeds	666,898	Clipper
Goliath, Cross Point Business Park, Coventry	666,044	Clipper
Rowley Lane, Elstree	584,019	Sky

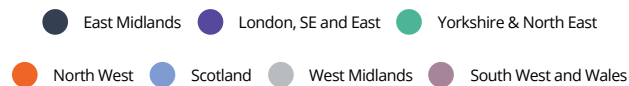
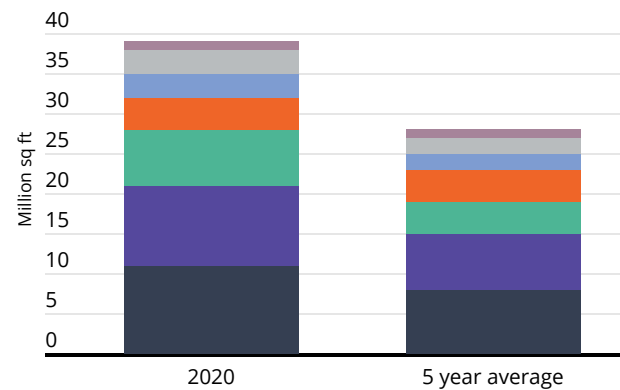
UK GRADE A BIG BOX TAKE-UP (OVER 100,000 SQ FT)



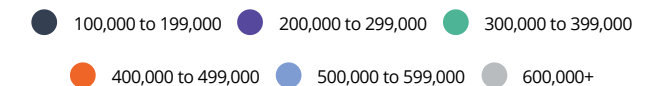
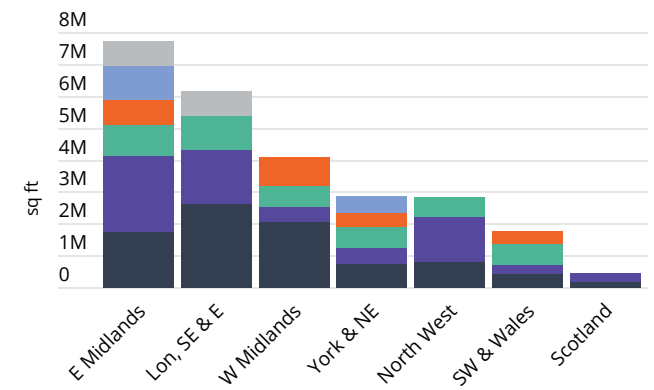
TAKE-UP BY KEY SECTORS



TAKE-UP BY REGION



AVAILABILITY BY REGION AND SIZEBAND





TOM BRIDGMAN
Principal, Industrial

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With the lack of supply in the occupational market we expect further rental growth. Investors will continue to be attracted to the comparatively long leases that the sector offers, and we therefore expect further yield compression.

Investment market in brief

INVESTMENT VOLUMES FOR DISTRIBUTION UNITS MATCH THE STRENGTH OF OCCUPIER DEMAND

The strength of the distribution occupier market continues to underpin considerable levels of investment activity. Total volumes for distribution warehouses amounted to just under £5 billion across the UK during 2020, 32% up on the five-year average, with 58% committed during the final quarter of the year.

Activity was dominated by large portfolio deals, with seven of the largest ten deals purchased by overseas investors. Blackstone alone accounted for 20% of the total volume for the year, including the two largest deals: the acquisition of the Prologis Platform portfolio of 22 warehouses for £473 million and the EPIC industrial portfolio: 8 assets bought for £335 million.

In total, overseas investment made up 55% of total volumes, up on the five-year average of 45%. Activity from UK institutions was in line with the average at 23% of volumes and led by more than £200 million of transactions each to Columbia Threadneedle and Legal and General, which included the latter's purchase of Amazon's 2.3 million sq ft unit at Panattoni Park in Swindon. Conversely, activity by UK property companies was down to 11%, with Urban Logistics REIT and Warehouse REIT the standout purchasers.

While portfolio transactions accounted for 35% of all volumes, the regions with the greatest level of activity over the past five years continued to lead the way in 2020, with the East Midlands accounting for 20%, followed by the South East and East (16%) and the North West (13%).

According to the MSCI monthly index the average equivalent yield for distribution property ended the year on 5.53%, which compares to 5.64% a year earlier. However, the uncertainty created by the first lockdown meant yields moved out to 5.82% by July but the strength of demand during the second half of the year led to significant yield compression.

With the lack of supply in the occupational market we expect further rental growth. Investors will continue to be attracted to the comparatively long leases that the sector offers, and we therefore expect further yield compression.

TOTAL FOR 2020

£4.95 billion

▲ 32%

Up on the five-year average

VOLUMES BY CITY



VOLUMES BY INVESTOR TYPE

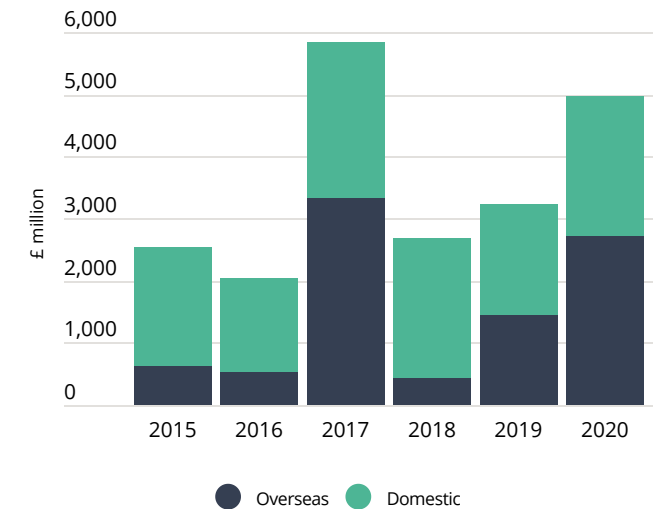


Investment data

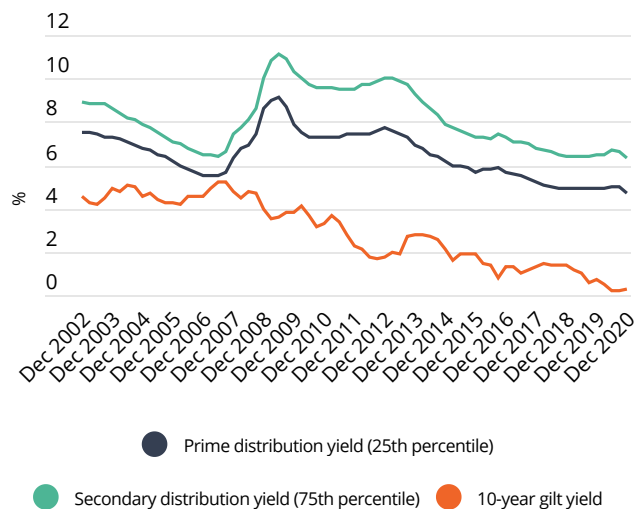
KEY BIG BOX DEALS - 2020

DATE	PROPERTY	TOWN	PURCHASER	VENDOR	PRICE £M	YIELD (%)
Oct-20	Platform Portfolio	Portfolio	Blackstone Real Estate	ProLogis UK Ltd	473	4.94
Dec-20	EPIC Industrial Portfolio	Portfolio	Blackstone Real Estate	EPIC UK Ltd	335	N/A
Dec-20	Mercia Park	Swadlincote	ICG Real Estate	IM Properties Plc	316	5.31
Dec-20	Marlin Portfolio	Portfolio	AIMCo / Canmoor	Starwood Capital	260	4.01
Aug-20	Manchester Airport	Manchester	Columbia Threadneedle	Manchester Airport Group	202	N/A
Sep-20	Panattoni Park	Swindon	Legal & General Property	Panattoni	202	4.30
Sep-20	BAPF Portfolio	Portfolio	Exeter Property Group	BA Pension Fund	151	5.00
Dec-20	Hillwood Portfolio	Portfolio	Ginkgo Tree Investment	Hillwood Properties	137	4.16

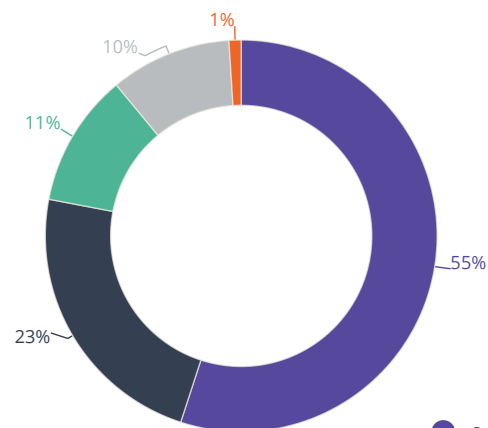
DISTRIBUTION INVESTMENT VOLUMES



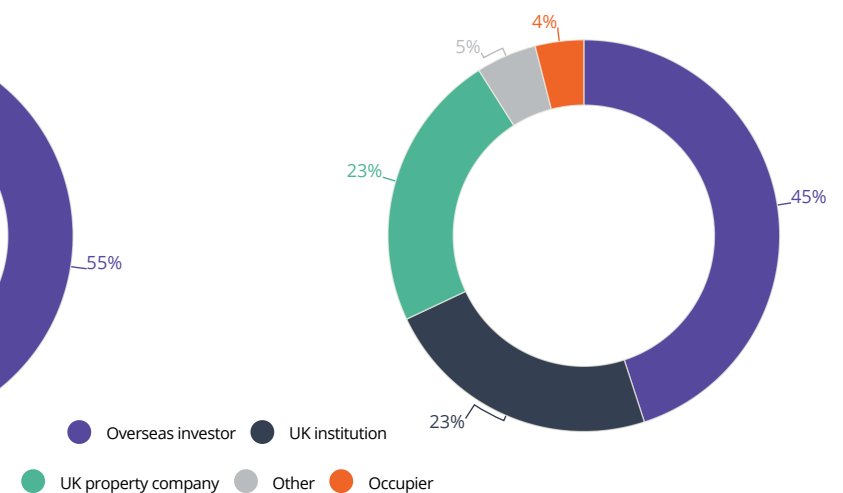
DISTRIBUTION YIELDS VS 10 YEAR GILTS



INVESTMENT VOLUMES BY INVESTOR TYPE - 2020



INVESTMENT VOLUMES BY INVESTOR TYPE - FIVE-YEAR AVERAGE



Key stats

TAKE-UP BY KEY SECTORS



38.4 million sq ft

▲ 40% Up on the 5 year average

KEY DEALS

Internet retailer

11.4 million sq ft



2.8 million sq ft



1.3 million sq ft



1.2 million sq ft

TAKE-UP BY BUILDING TYPE



47%

Design & Build



29%

Speculative



24%

Existing buildings

TAKE-UP BY SECTOR



41%

Retail - Non food



36%

Third party logistics



10%

Retail - Food

THREE REGIONS DOMINATE TAKE-UP



28% East Midlands

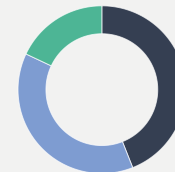
26% London, South East & East

17% Yorkshire & North East

TAKE-UP BY SECTOR

25.8 million sq ft

(11 months' supply based on past demand)



44% Secondhand

38% Completed speculative build

18% Under construction

DISTRIBUTION AVERAGE RENTAL GROWTH (MSCI MONTHLY INDEX)



1.6%

12 months to December 2020

DISTRIBUTION INVESTMENT

2020

£4.95 billion

▲ 32%

Up on the 5 year average

DISTRIBUTION YIELD

5.53%

(MSCI monthly index - December 2020)

5.64%

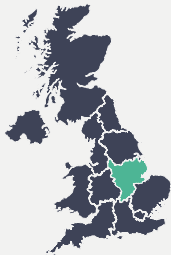
(December 2019)

KEY PURCHASERS



Regional data

East Midlands




TAKE UP

 ²⁰²⁰
10,726,779 sq ft

Five-year average
7,595,859 sq ft

SUPPLY

 30 units, average 256,464 sq ft
7,693,918 sq ft

Under construction
16%

HEADLINE RENT
(100,000 sq ft unit)

Northampton
7.25 £psf

12 month change



VALUE PER ACRE
(10 acres)

Northampton
£1.2 m

12 month change



West Midlands




TAKE UP

 ²⁰²⁰
4,456,875 sq ft

Five-year average
4,347,433 sq ft

SUPPLY

 22 units, average 185,035 sq ft
4,070,780 sq ft

Under construction
3%

HEADLINE RENT
(100,000 sq ft unit)

Coventry
7.25 £psf

12 month change



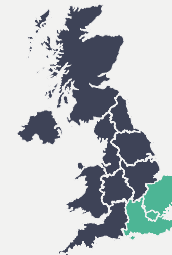
VALUE PER ACRE
(10 acres)

Coventry
£1.1 m


12 month change



London, South East & East




TAKE UP

 ²⁰²⁰
9,893,573 sq ft

Five-year average
6,720,728 sq ft

SUPPLY

 29 units, average 211,066 sq ft
6,120,900 sq ft

Under construction
28%

HEADLINE RENT
(100,000 sq ft unit)

Park Royal
20.00 £psf

12 month change



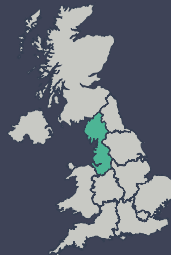
VALUE PER ACRE
(10 acres)

Park Royal
£7.0 m

12 month change



North West



TAKE UP

 ²⁰²⁰
2,797,527 sq ft

Five-year average
2,319,119 sq ft

SUPPLY

 14 units, average 202,885 sq ft
2,840,391 sq ft

Under construction
27%

HEADLINE RENT
(100,000 sq ft unit)

Manchester
6.95 £psf

12 month change



VALUE PER ACRE
(10 acres)

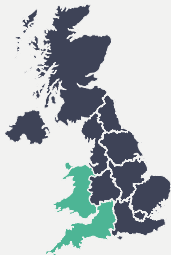
Manchester
£1.0 m

12 month change



Regional data

South West & Wales



TAKE UP



2020

3,081,176 sq ft

Five-year average

2,028,754 sq ft

SUPPLY



8 units, average 223,027 sq ft

1,784,219 sq ft

Under construction

26%

HEADLINE RENT

(100,000 sq ft unit)

Bristol

7.25 £psf

12 month change



VALUE PER ACRE

(10 acres)

Bristol

£470,000

12 month change



Yorkshire & North East



TAKE UP



2020

6,587,686 sq ft

Five-year average

3,757,302 sq ft

SUPPLY



11 units, average 259,352 sq ft

2,852,872 sq ft

Under construction

13%

HEADLINE RENT

(100,000 sq ft unit)

Leeds

6.00 £psf

12 month change



VALUE PER ACRE

(10 acres)

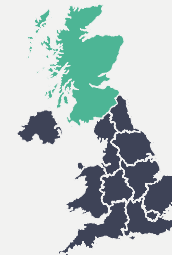
Leeds

£650,000

12 month change



Scotland



TAKE UP



2020

852,907 sq ft

Five-year average

583,526 sq ft

SUPPLY



3 units, average 148,333 sq ft

445,000 sq ft

Under construction

0%

HEADLINE RENT

(100,000 sq ft unit)

Glasgow

6.50 £psf

12 month change



VALUE PER ACRE

(10 acres)

Glasgow

£220,000

12 month change



// The East Midlands has been the dominant region for the past three years and accounted for 10.7 million sq ft of activity in 2020, 29% of the total.

Should you wish to discuss any details within this update please get in touch

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